# FINANCIAL TIMES

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TUESDAY MARCH 30 1999

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## WORLD NEWS

### Thai candidate for WTO post wins key European support

Supachai Panitchpakdi, Thailand's deputy prime minister, appeared to have achieved a decisive lead in the race to head the World Trade Organisation, after all European Union members except Sweden swung behind his candidacy. Page 18; International Trade, Page 6

**Pledge after tunnel fire**
France and Italy pledged to tighten security in large European road tunnels and press for more freight to go by rail, after last week's fatal fire in the Mont Blanc tunnel, which killed at least 40 people. Europe, Page 3

**Turmoil over Oviedo**
Paraguay's former military strongman Lino Oviedo was under arrest in Argentina yesterday as the fall-out from his political connections reverberated at home. Americas, Page 8; Editorial Comment, Page 17

**Farm reforms 'blow' for Europe**
A dilution of farm aid reforms by European Union government heads will reduce the Union's negotiating strength in talks to liberalise world trade, the European Commission said. Europe, Page 3

**Pinochet freedom move on hold**
The High Court in London ruled that fresh legal challenges aimed at freeing General Augusto Pinochet must wait until Jack Straw, the British home secretary, has decided whether to renew government approval of Spain's extradition request. Americas, Page 8

**Gloom over Ulster peace talks**
Gloom hung over the Northern Ireland talks as parties switched their thoughts to the possible collapse of the peace agreement reached a year ago this week. Britain, Page 10

**EU industrial subsidies at €37.7bn**
Subsidies given to manufacturing industry in the European Union between 1995/97 amounted to an annual average of €37.7bn. Europe, Page 3

**IMF criticises Bank of England**
The Bank of England – the UK central bank – should carry a more realistic and explicit discussion of the likely path for interest rates in its quarterly inflation report, according to the International Monetary Fund. Britain, Page 11

**Japan tackles over-production**
The Japanese government has set up an advisory panel in an attempt to grapple with excess production capacity, amid the country's worst recession in the post-war era. Asia-Pacific, Page 4

**Quarantine restrictions to stay**
The UK government has refused to end quarantine restrictions for domestic animals imported into Britain from North America because of the prevalence of rabies. Britain, Page 10

**Marine navigator to 'plead guilty'**
A US Marine navigator whose jet cut a ski gondola cable in Italy last year, killing 20 people, has agreed to plead guilty to obstruction and conspiracy charges, according to a Marine spokesman. US, Page 8

## BUSINESS NEWS

### French central bank acts over three-way takeover battle

The French central bank issued a highly unusual plea for Banque Nationale de Paris, Société Générale and Paribas, the protagonists in a three-way hostile takeover battle, to down arms and "establish a dialogue". Companies and Markets, Page 19; Ditching is fairplay, Page 18

**BP Amoco**, the UK's biggest company, confirmed it was in takeover talks with Atlantic Richfield, the Los Angeles-based oil group also known as Arco. Companies and Markets, Page 19; Lex, Page 18; Bigger, biggest, Page 17; Good fit, Page 22

**Big insurance companies** and brokers are to create a global e-commerce network for trading risks among themselves in a move to counter a vicious squeeze on margins. Page 18

**Alpha Credit Bank**, Greece's leading private bank, is to pay Dr276bn ($912.4m) for a majority stake in state-controlled Ionian Bank in the country's biggest privatisation sale. European companies, Page 20

**Nissan Motor** has net debts of $19.9bn – $2.2bn more than the Japanese carmaker, in which Renault plans to buy a controlling stake, had disclosed. Companies and Markets, Page 19

**GE Capital Services**, the finance arm of US conglomerate General Electric, is understood to be finalising the purchase of 90 per cent of Bank Bali, one of Indonesia's largest banks. Asia-Pacific companies, Page 24

**Viag's** planned merger with Swiss group Alusuisse Lonza has collapsed. The German conglomerate cited disagreements over terms. Companies and Markets, Page 19; Observer, Page 17

**Goldman Sachs**, the US-based investment bank set to become a public company, has acquired a 22 per cent stake in Wit Capital, an investment bank specialising in IPOs over the internet. US companies, Page 22

**Computer Associates**, the US software group, announced the biggest merger in the history of the software industry by agreeing a $3.5bn takeover of rival Platinum Technology. Companies and Markets, Page 19

**Sweden and Norway** were understood to be finalising the proposed merger of Telia and Telenor, their respective state-run telephone companies. European companies, Page 20

**Eastman Kodak** again signalled that its earnings revival was progressing slowly. US companies, Page 22

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**Euro Prices**
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets. Page 27

# Primakov to fly to Serbia in bid to end hostilities

By Andrew Jack in Moscow, Guy Dinmore in Belgrade, and Neil Buckley in Brussels

Yevgeny Primakov, the Russian prime minister, is to have talks in Belgrade today with Slobodan Milosevic, the Yugoslav president, in an effort to halt the hostilities in Yugoslavia.

Mr Primakov, accompanied by his defence and foreign ministers, is set to fly to Belgrade this morning and is then expected to go to Bonn for talks with Gerhard Schröder, the German chancellor.

The Russian move follows Moscow's strongest condemnations yet of the Nato air strikes. Igor Ivanov, foreign minister, called the bombing a "humanitarian catastrophe" and "an act of barbarism", and rejected suggestions that Kosovar Albanians were the victims of genocide.

Nato forces launched a sixth successive night of air strikes against targets in Yugoslavia amid reports of thousands of refugees streaming across the borders from Kosovo into neighbouring Albania and the Yugoslav republic of Montenegro.

Dmitry Yakushkin, spokesman for Russian president Boris Yeltsin, said the aim of Mr Primakov's mission was "to co-ordinate steps [with Milosevic] which could help find a political solution to the conflict which has emerged because of Nato's military action".

Italy and Turkey welcomed the Primakov mission and France said President Jacques Chirac had asked Mr Primakov to intervene.

Russia is a member of the Contact Group on Yugoslavia, but Mr Ivanov said there was little chance of a meeting of the Group, as demanded by Moscow, with the other members – France, Italy, Britain, Germany and the US – all involved in Nato strikes.

Britain called yesterday for intensified Nato air strikes but ruled out using ground troops to protect Kosovar Albanians.

Tony Blair, the British prime minister, said: "For every act of barbarity, every slaughter of the innocent, Milosevic must be made to pay a higher and higher price."

In an interview broadcast to the Balkans in several languages Mr Blair said there would be "absolutely no let up whatever, until we have forced him to stop carrying out these barbaric atrocities against innocent civilians".

Nato said on Monday that five prominent Kosovar Albanians, including Fehmi Agani, a member of the delegation to the recent abortive peace talks in France, had been "executed". Witness reports from Pristina, the Kosovo capital, said Mr Agani had been seen fleeing the city yesterday morning. However, Air Commodore David Wilby, Nato military spokesman, said it had been reliably reported that Mr Agani, Baton Haxhiu, editor-in-chief of the main Kosovo Albanian newspaper and three others had been executed on Sunday.

He said the killings took place after the men had attended the funeral of Bajram Kelmendi, a lawyer, who was shot by Serb police along with his two sons on the first night of Nato strikes last Wednesday.

Refugee agencies yesterday reported tens of thousands of people fleeing Kosovo to Albania, Montenegro and Macedonia as Serb military and paramilitary attacks on ethnic Albanians intensified.

Nato said it had shifted the focus of its air attacks to Yugoslav ground forces, and would make "every effort possible" to end the humanitarian disaster unfolding in Kosovo.

Kosovo crisis, Page 2

Russian prime minister Yevgeny Primakov (left) and IMF chief Michel Camdessus in Moscow yesterday Picture: AP

# IMF promises Russia up to $4.8bn worth of new loans

## Moscow hails outline agreement to prevent bankruptcy

By John Thornhill in Moscow

The International Monetary Fund yesterday threw a lifeline to the Russian government by promising as much as $4.8bn in new loans to prevent the threat of national bankruptcy.

The outline agreement was hailed in Moscow as a personal triumph for Yevgeny Primakov, Russian prime minister and possible presidential contender, who had spent many hours cajoling Michel Camdessus, the IMF's managing director, to help Russia overcome its devastating financial crisis.

"We have agreed about co-operation," Mr Primakov said. "We have agreed that we will be granted a new credit and that next week a full-scale mission from the fund will come to Moscow to complete work on this agreement."

Following a whirlwind series of meetings in Moscow over the past three days with Russian ministers, parliamentary leaders and even the head of the Russian Orthodox Church, Mr Camdessus said: "I understand there is a strong consensus in support of this government."

However, details of the new programme still have to be worked out by the IMF mission and then approved by the fund's board. Russian officials said the government was likely to receive $4.8bn in four tranches starting at the end of April.

The IMF, which previously had criticised the incoherence of the Russian government's economic policies, appeared to have softened its negotiating stance – dropping its insistence that the government target a primary budget surplus (before interest rates) of 3.5 per cent of gross domestic product this year.

A joint communiqué stated: "The parties have agreed on a primary budget surplus of 2 per cent of GDP to be realised in 1999 and most of the measures needed to achieve it."

Augusto Lopez-Claros, an economist at Lehman Brothers and the former IMF representative in Moscow, said yesterday's agreement could not yet be considered a "done deal", but the dynamics of the negotiations had clearly changed in the past week, probably as a result of the conflict in Yugoslavia.

"I think the fund and the G7 must have made a calculation that it is much better to have Russia on board with a new IMF programme than for the discussions to drag on," he said. "The risk was that with the Kosovo crisis distracting people's attention the two sides would have diverged."

Almost all the IMF funds will be used to repay Russia's debts to the fund which fall due this year. However, the deal is critical for preserving Russia's reputation in international financial markets and will unlock an additional $2bn to $2.5bn in cash from the World Bank, Japan and other international credit agencies.

It will also enable Russia to start talks with the Paris Club of sovereign creditors and the London Club of commercial creditors about restructuring $150bn of external debts.

Mr Primakov's success with the IMF is likely to boost his political prestige and further eclipse President Boris Yeltsin's.

# Olivetti raises offer for Telecom Italia to a 'final' €60.4bn

By Paul Betts in Milan and Vincent Boland in London

Olivetti last night raised the stakes in Europe's largest takeover battle by increasing its hostile bid for Telecom Italia by 15 per cent to €60.4bn ($66.4bn).

However, Roberto Colaninno, Olivetti's chief executive, warned that the new offer would be withdrawn if Telecom Italia shareholders approved the privatised telecommunications group's defence strategy next week.

Olivetti raised its original €10 a share offer to €11.5. "This is our final price," Mr Colaninno said. The move had been expected after the telecoms and information technology group secured loan commitments from a group of international banks of more than €28bn to help fund the bid last Friday.

Olivetti was also responding to market demands for a higher offer price, plus Telecom Italia's decision on Saturday to launch a €22.9bn cash offer for all the outstanding shares in its Telecom Italia Mobile (TIM) cellular phone unit it does not already own. Telecom Italia is tomorrow planning to seek up to €25bn in the syndicated loan market to finance the buyback.

Telecom Italia's cash offer for TIM was described by Mr Colaninno as "extremely serious" in that it would triple the company's indebtedness.

Telecom Italia shareholders have been called to vote on the buyback and a proposed savings shares conversion, part of the board's bid defence, at a meeting on April 10. This will be followed by a second meeting before the end of April to approve the acquisition of the remaining TIM shares.

Apart from the 15 per cent price increase, the structure of the sweetened Olivetti bid is the same as the original offer launched last month. Olivetti is offering €11.5 in cash, bonds and shares in its Tecnost subsidiary for all outstanding Telecom Italia common voting shares.

Under the new terms, Telecom Italia shareholders would receive €6.92 in cash, €2.90 in bonds and €1.68 in Tecnost shares. The higher offer, totalling €60.4bn, would be financed as follows: €21bn from the new bank loan, €12bn through a Tecnost capital increase subscribed by Olivetti, €3.4bn from a bond issue subscribed by a group of banks, a further €15.2bn from a new bond issue with a variable interest rate, and €8.8bn from the issue of new Tecnost shares.

Lex, Page 18

## WORLD MARKETS

| STOCK MARKET INDICES | | |
|---|---|---|
| *New York: lunchtime* | | |
| Dow Jones Ind Av | 9,977.92 | (+155.68) |
| NASDAQ Composite | 2,469.21 | (+50.04) |
| **Europe and Far East** | | |
| CAC40 | 4,153.65 | (+37.94) |
| DAX | 4,876.92 | (+101.75) |
| FTSE 100 | 6,252.9 | (+113.7) |
| FTSE Eurotop 300 | 1,256.77 | (+1.54) |
| Nikkei | 16,008.84 | (-8.15) |
| **US LUNCHTIME RATES** | | |
| Federal Funds | 4.875% | |
| 3-mth Treas Bills: Yld | 4.52% | |
| Long Bond | 94$\frac{3}{8}$ | |
| Yield | 5.66% | |
| **OTHER RATES** | | |
| UK: 3-mo Interbank | 5$\frac{1}{4}$% | (same) |
| UK: 10 yr Gilt | 110.07 | (110.043) |
| Euro Euribor | 2.985 | (2.991) |
| Germany: 10 yr Bund | 97.60 | (97.71) |
| Japan: 10 yr JGB | 101.19 | (101.354) |
| **NORTH SEA OIL (Argus)** | | |
| Brent Dated | $14.44 | (13.895) |

| GOLD | | |
|---|---|---|
| *New York: Comex* | $280.5 | (279.7) |
| *London:* | $281.15 | (279.75) |
| **DOLLAR** | | |
| *New York: lunchtime* | | |
| £ | 1.6145 | |
| € | 0.933 | |
| SFr | 1.4867 | |
| Y | 119.745 | |
| *London:* | | |
| £ | 1.6195 | (1.62) |
| € | 0.9331 | (0.9318) |
| SFr | 1.4871 | (1.4848) |
| Y | 119.71 | (120.090) |
| Tokyo close: | | Y 120.2 |
| **EURO (London)** | | |
| $ | 1.0717 | (1.0734) |
| £ | 0.6621 | (0.6626) |
| Y | 128.293 | (128.905) |
| SFr | 1.5938 | (same) |



Euro-zone target price €2.15. Prices in local currency as shown

| | | | | | |
|---|---|---|---|---|---|
| Bahrain | Din1.300 | Iceland | IKr285 | Oman | OR1.75 |
| Belgium | BFr90(€2.23) | Italy | L3900(€2.01) | Poland | Zl 10.00 |
| CIS | US$4.00 | Jordan | JD1.75 | Portugal | Esc320(€1.60) |
| Croatia | Kn19.00 | Kuwait | KWD0.750 | Qatar | QR13.00 |
| Denmark | DKr16.00 | Latvia | Ls1.65 | South Africa | R16 |
| Estonia | EKr34.00 | Lithuania | Lit21.00 | Spain | Pta325(€1.95) |
| Finland | FmK13.00(€2.19) | Lebanon | LBP3,500 | Sweden | SKr20.00 |
| France | FFr14.00(€2.13) | Luxembourg | LFr90(€2.23) | Switzerland | SFr3.50 |
| Gibraltar | £0.85 | Morocco | Dh18.00 | Syria | S£90.00 |
| Greece | Dr606 | Netherlands | Fl 4.80(€2.18) | Tunisia | Din2.000 |
| Hungary | Ft380 | Norway | NKr19.00 | UAE | Dh13.00 |

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# WORLD NEWS
## KOSOVO CRISIS

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# Italy launches humanitarian aid for refugees

**By Paul Betts in Milan, Guy Dinmore in Belgrade and Stefan Wagstyl in London**

Italy yesterday took the lead among western nations in launching humanitarian aid for the latest wave of Kosovo refugees, while bracing itself for a new influx of immigrants reaching its southern Adriatic shores.

The government acted as tens of thousands of Kosovo Albanians fled their homes for Albania and other neighbouring countries.

The United Nations High Commissioner for Refugees yesterday estimated 75,000 refugees had left Kosovo since Saturday, including over 60,000 seeking aid in Albania. But the numbers were growing by the hour. The Organisation for Security and Co-operation in Europe late yesterday put the total for Albania alone at 70,000 and the Albanian government reporting that 100,000 Kosovo refugees were either already in Albania or heading towards its borders. While most are still in the mountainous border areas between Kosovo and Albania and Montenegro, a few hundred had already reached Tirana, the Albanian capital.

As a magnet for ethnic Albanian refugees, Italy is watching these huge flows with particular concern. The Italian navy sent two ships with tents and mobile homes to Albania to ferry supplies, which include 5,600 six and eight-person tents, 40,000 sleeping bags, 20,000 mattresses and 40 drinking-water tankers.

The Italian move reflects the government's twin preoccupation of coping with a new flood of immigrants and appeasing members of its coalition parties over its stance on the war in Yugoslavia. More than 20,000 refugees are now expected to cross the Adriatic in the coming days to seek safe haven in Italy.

A former Nato air base near Bari, in southern Italy, has already been prepared to accommodate the expected influx of new refugees.

The Italian government was also coming under increasing political pressure from its coalition partners over continuing Nato military action in Yugoslavia. Former Communists supporting the government warned again they were considering withdrawing their ministers, including the current justice minister, from the government if the Nato bombings were not suspended.

Meanwhile, the Albanian parliament yesterday appealed to Nato to send ground troops into Kosovo to stop the violence and staunch the flow of refugees. "What is happening in Kosovo is a crime against humanity in the heart of Europe," the parliamentary statement said.

The crush of humans and vehicles on the border was so great that the Yugoslav guards closed the main frontier crossing near the Albanian town of Kukes for about three hours. "Refugees are arriving at a rate of 4,000 per hour now," said Andrea Angeli, spokesman for the Tirana office of the Organisation of Security and Co-operation in Europe.

In Pristina, the Kosovo capital, Serb security forces seeking a safe haven from Nato air attacks on their barracks yesterday expelled several thousand ethnic Albanians from their homes, witnesses said. Chaos broke out as Serbian police and Yugoslav troops went from home to home in the hillside Dragodan residential area, driving out their occupants who mostly fled on foot. "They shouted 'go, go, go'," said one witness reached by telephone. Some people were beaten, the witness said, but he saw no one being killed.

Many of those fleeing Kosovo told harrowing stories of being forced from their homes by Serb gunmen. At the Rusulija Pass, in northern Kosovo, refugees said residents of the city of Pec had been given five minutes to leave their homes or be shot. "Half the town was destroyed by the time we left. We saw bodies lying by the road to the border. We counted 13 dead in Novo Selo but we hear there may be hundreds of dead in other villages," said Idres Aslen, a 40-year-old refugee, wrote journalist Robert Fox in the London Evening Standard.

**MILITARY TACTICS** US EMPHATICALLY RULES OUT LAND INVASION

# Nato still against use of ground troops

**By Gerard Baker in Washington, David Buchan in Gioia del Colle, Neil Buckley in Brussels and Quentin Peel in London**

In spite of growing public pressure to contemplate the use of ground troops in Kosovo, the Nato allies yesterday remained adamant that any such invasion against hostile Serbian forces was out of the question.

In Washington, US officials emphatically ruled out the use of ground forces and said there had been no discussion within Nato about it since Operation Allied Force began last week.

In Italy, where he was visiting Royal Air Force units involved in the bombing campaign, George Robertson, the British defence secretary, said the allies had neither the troops nor the time to mount an invasion.

In Brussels, Nato officials said there were no plans for ground troops to fight their way into the mountainous territory, although they stopped short of ruling out the option entirely.

The refusal to contemplate the use of ground forces comes in spite of an apparent shift in allied thinking about the future of Kosovo, to contemplate the possibility of outright independence. That would also almost certainly require the installation of a western protection force.

Wolfgang Petritsch, the European Union envoy on Kosovo, said in an interview with the Austrian newspaper Der Standard that "everything is now moving in this direction of independence for Kosovo because it is difficult to imagine that the Albanians will be willing to remain in a state with the Serbs after the massacres".

How to get to such an outcome is another matter. British defence experts argue the terrain in Kosovo would make any attempt to invade by road far too risky, with the probability of heavy casualties. The same would be true of using paratroops or helicopters to fly over the mountains. "There is only one way into Kosovo from Macedonia," according to Tim Ripley, a defence analyst at Lancaster University. "You would have to conduct a frontal attack up a narrow mountain gorge, in which an enemy platoon could hold up an army for weeks."

The combination of political and military hesitation has left the allies determined to succeed with air strikes.

"We can meet our military objectives with air strikes until there is a political settlement," said Joseph Lockhart, the White House press secretary.

The use of ground troops had been thoroughly examined in a full review of military options in Kosovo last autumn and had been ruled out as impractical, another spokesman added. "We have no plan to fight our way into Kosovo," he said.

US public opinion remains opposed to the deployment of land forces, but a number of Republicans have said Nato should consider it.

"I say we're in it and we have to win it. And we have to do whatever is necessary in order to ensure that this is not a failure because the lesson is not lost on people in Beijing and Pyongyang and Tehran and Baghdad," Senator John McCain, a contender for the party's presidential nomination next year, said at the weekend.

"We have to take whatever measures are necessary, even reluctantly introducing ground forces, if that is the only way to accomplish it," said Henry Kissinger, former secretary of state.

However, in Italy yesterday Mr Robertson outlined the military objections. He insisted that Nato can only provide immediate help to the Kosovo Albanians through air attacks because the alliance lacked both the troops and the time to mount a ground invasion to stem the current Serb offensive. "This is not a sensible option," he said.

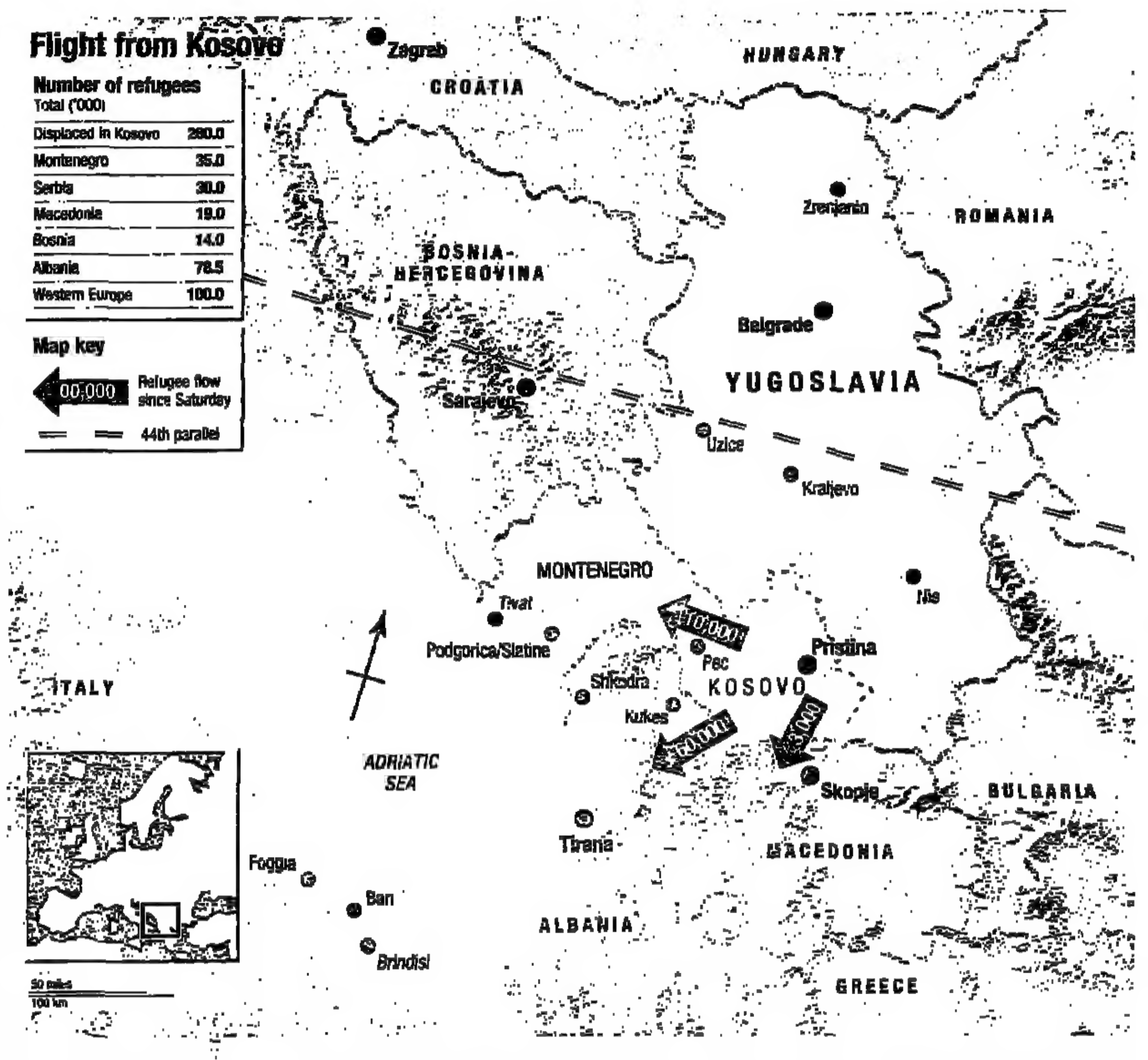
It was the first time a senior Nato minister ruled out a ground force, not for lack of political will or worries about casualties but because Nato could not mount a land invasion in time to stem the current Serb offensive in Kosovo.

The UK defence minister suggested Nato would have to field between 100,000-150,000 troops to take on the Yugoslav army. "Where would you find and train enough troops for this?" he queried. "It would take two months to get them into formation. The terrain is very inhospitable. There is only one road from Macedonia into Kosovo, and it has been heavily mined by the Serbs."

Britain has 4,300 troops in Macedonia, with the promise of sending nearly 4,000 more, in readiness for the notional peacekeeping force Nato has said should be deployed in Kosovo if and when the Serbs and Albanians ever reach a power-sharing agreement for the province.

Mr Robertson said any deployment of these British peacekeepers in Kosovo, plus existing commitments in Bosnia and Northern Ireland, would mean that 41 per cent of the British army strength would be on operational duty. "This is the highest it has ever been in peacetime," he said, adding that his generals had told him this high ratio of troops in the field to the total could not continue for long.

In addition, Mr Robertson said sending ground troops in would appear as an act of war against the country of Yugoslavia rather than the regime of Mr Milosevic and his military assets and network, which so far have been the targets of Nato bombing.




**Number of refugees**
Total ('000)

| | |
|---|---|
| Displaced in Kosovo | 260.0 |
| Montenegro | 35.0 |
| Serbia | 30.0 |
| Macedonia | 19.0 |
| Bosnia | 14.0 |
| Albania | 78.5 |
| Western Europe | 100.0 |

**NORTH ATLANTIC COUNCIL** ALL DECISIONS REQUIRE UNANIMITY

# Nato dissenters 'could withhold military aid'

**By Neil Buckley in Brussels**

No single Nato member could call a halt to the bombing in Yugoslavia without the agreement of all the rest, although objectors could withhold use of their military forces, Nato officials said yesterday.

Signs of Greek opposition to the air attacks, and suggestions by Massimo D'Alema, Italian prime minister, that diplomatic efforts to solve the Kosovo crisis should resume quickly, have raised questions about what would happen should support for the bombing splinter.

Officials said the decision to launch air attacks had been taken unanimously - as Nato decisions must be - by the North Atlantic Council, the alliance's top policy-making body. Any decision to stop also would have to be unanimous. The council is composed of representatives from each of the 19 Nato members, either ministers or diplomats. In practice, day-to-day meetings are usually attended by members' ambassadors to Nato, based permanently in Brussels. Ambassadors can be summoned at 30 minutes' notice.

The unanimity rule means that neither Greece nor Italy could, by themselves, end the bombing. Any country that turned against the campaign could, however, withdraw use of their forces and facilities. In the case of Italy, from where many of the Nato bombing sorties are being flown, this would be highly disruptive to the operation.

"They would then have to stand up before their allies and explain their decision," said one official.

Javier Solana, Nato secretary-general, last Tuesday won approval from the NAC to launch both the first and second phases of the air campaign, targeting air defence systems, and then Serb forces in the area in and around Kosovo south of the 44th parallel, which bisects Yugoslavia. But officials said Mr Solana had, nonetheless, consulted ambassadors again before moving to phase two. There was no opposition.

Moving to phase three, extending action to targets above the 44th parallel, or phase four, withdrawal of Nato forces, would require further unanimous council decisions. So would any move to deploy ground forces.

Officials added that Italy's continuing practical support for military action was demonstrated by the fact that many air sorties were being launched from Italian bases.

While it could not stop the bombing, a change of heart by any Nato member could pose a severe problem for the alliance. Officials acknowledge that Slobodan Milosevic, the Yugoslav president, would be certain to capitalise on such a split.

An ethnic Albanian woman and child and flee to Macedonia Reuters

**REPUBLIKA SRPSKA** PEACE MONITORING

# Strikes sour relations with Bosnian Serbs

**By Robert Wright in Banja Luka**

International organisations in the Serb-controlled half of Bosnia-Hercegovina fear their ability to supervise closely the Dayton peace accord has been endangered by fury at Nato air strikes in Yugoslavia.

Sources said even good personal relationships with local politicians had been harmed, threatening their ability to monitor the 1995 peace agreement that brought to an end the war in Bosnia.

There have already been isolated incidents of violence in Republika Srpska, such as an attack on a United Nations police task force station in Bosanska Gradiska, on the Bosnia-Croatia border. The British and US embassy missions in Banja Luka, the largest Serb town in Bosnia-Hercegovina and the capital of Republika Srpska, were attacked and seriously damaged by rioters on Friday.

Perica Vucinic, of the respected Banja Luka magazine Reporter, said the strength of anti-Nato feeling could lead small bands of war veterans to attack the Nato-led SFOR peacekeeping forces. Most observers believe the high numbers of guns still left in the hands of veterans throughout Bosnia-Hercegovina will pose a threat if the situation grows more unstable.

However, the nightly protests in Banja Luka against the Nato bombing have remained peaceful and there appears to be no immediate prospect of an organised uprising against Sfor troops.

Rajko Vasic, the Republika Srpska information minister, said that with the Bosnian Serb army under close control and mainly formed from conscripts who had not fought in the war, there was little likelihood of serious confrontation at present.

The air strikes have come at a particularly bad time for the Serb entity in Bosnia, hard on the heels of the dismissal of Nikola Poplasen as president by Carlos Westendorp, the international community's high representative. The dismissal - for an alleged breach of the entity's constitution - has led radicals to dismiss the prime minister, Milorad Dodik, who is seen as more democratic.

Mr Poplasen's sacking came as international bodies said they would create a special area for the town of Brcko, which links the east and west of Republika Srpska and had been a full part of the entity. The Moslem-Croat federation is now also being given some say in the running of the town, a window link to the outside world for the federation. The air strikes have been seen as the third and most serious blow to the prestige of both Republika Srpska democrats and the internationally guaranteed Dayton peace plan.

Mr Vasic said he believed international organisations had shown little understanding of the difficulties facing those like himself who represented democratic forces.

# Blair hardens line on Serbia

**By Robert Peston, Political Editor**

Tony Blair, the British prime minister, yesterday recast the Nato military alliance as an agent of retribution against Serbia for its campaign against the Kosovar Albanians.

Addressing the House of Commons, Britain's lower house, Mr Blair said: "For every act of barbarity, every slaughter of the innocent, Milosevic must be made to pay a higher and higher price."

Nato's response to the "callous brutality" of Slobodan Milosevic, the Yugoslav president, should not be "weakness but strength".

This represented a significant change of tone by Mr Blair, in the wake of the mass exodus of Albanians from the region. He did not repeat his assertion of last Wednesday that the "very simple reason" for the air strikes was "to prevent Milosevic from continuing to perpetuate his vile oppression against innocent Kosovar Albanian civilians".

Mr Blair also insisted that Nato could not be blamed for the escalation in Mr Milosevic's campaign of "ethnic cleansing". "The idea that this barbarity... started last Wednesday, when Nato began its campaign, is simply absurd."

The prime minister said that the Serbian "massacres" had been planned by Mr Milosevic over the preceding two months. "It is now clear that Serb participation in the Paris peace talks [earlier this month] was a cover for Milosevic's offensive preparations," he said. "On 20 March, the day after talks were suspended, we now know armed Serbs started summary executions and ethnic cleansing."

Mr Blair announced a £10m increase in aid to Albanian refugees and the creation of a cross-departmental working party to come up with further suggestions on how to provide succour to those fleeing.

However, there was no hint that Mr Blair had abandoned his opposition to the use of ground forces in Serbia.

His chief spokesman reiterated that troops would only be used as guardians of any new settlement for the region, if Mr Milosevic was forced into submission.

The prime minister received broad cross-party support for the UK's participation in the Nato campaign. However, Sir Peter Tapsell, the veteran Conservative member of parliament, said he was being "as stupid as the Kaiser", in a reference to the Balkans crisis which fomented the first world war.

Meanwhile ministers reacted furiously to emotive criticism of the air strikes by Alex Salmond, the leader of the Scottish National Party.

In a party political broadcast, Mr Salmond said that the effect of aerial blitzes was typically to "steel the resolve of the civilian population" and he cited the experience of London in the second world war.

Mr Salmond said the government was therefore bringing about the reverse of what it desired, by effectively silencing internal opposition to Mr Milosevic.

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**RUSSIAN OPPOSITION** IMF BACKING APPEARS TO LEAVE PRIME MINISTER FREE TO CONCENTRATE ON BALKANS

# Primakov tries to strike Slavic balance

**By Andrew Jack in Moscow**

Yevgeny Primakov's mission to help bring an end to Nato's military action in Yugoslavia gives Russia's prime minister a chance to respond to the surge in militaristic, anti-western feeling in his country over the last few days.

Russia's show of solidarity with the Serbs has involved much theatre. Vladimir Zhirinovsky, the nationalist politician, appeared on a Sunday evening television show dressed in a military uniform. His party has assembled hundreds of volunteers to fight for the Serbs.

The demonstrations taking place outside the embassies of the US and other western countries in Moscow in the last few days have been modest in size. But in a country not known for spontaneous, large-scale protests, Nato has provoked widespread resentment.

Even Russia's unpopular pro-western, liberal economic reformers have attempted to take advantage of the mood. Yegor Gaidar, the former prime minister, led a delegation to Belgrade over the weekend - although Serb hostility meant the move backfired.

Mr Primakov's action seems far more shrewd, even if he will be exposed if he fails. While it was unclear whether the International Monetary Fund would withhold financial support for Russia, he held back from excessively anti-western comments. With that funding seemingly assured yesterday, he is free to concentrate on resolving the Kosovo crisis.

Alexander Pikaev of the Carnegie Moscow Centre cites the renewed anti-Nato rhetoric as the latest development to offer parallels between contemporary Russia and the Weimar Republic period in Germany in the late 1920s and early 1930s: "There is a feeling that the public has been humiliated and Russia ignored in the international arena," he says. "Since the August [economic] collapse, people have been disappointed with the course of economic reform and the westernisation of the economy."

Some of the protestors have played up the idea of solidarity with Russia's "Slavic brothers" - reflecting the pan-Slavic ideology first promoted under Tsar Alexander III in the late 19th century, and encompassing the Christian Orthodox world. However, as Sergei Markov of the Institute of Political Studies points out: "The Slavs may regard themselves as brothers, but they always end up fighting with each other."

# France, Italy pledge tighter tunnel checks

By Robert Graham in Paris

France and Italy yesterday pledged to tighten security in large European road tunnels and press for more freight to go by rail, after last week's fatal fire in the Mont Blanc tunnel.

The move followed a meeting between Lionel Jospin, French prime minister, and Massimo D'Alema, his Italian counterpart, at the French entrance to the tunnel.

The two leaders paid tribute to the 40 people so far known to have died in the fire.

"We must draw the lessons from this tragic and exceptional accident, ensuring it is never repeated," Mr Jospin said.

The fire started last Wednesday in a Belgian truck passing through the tunnel. Fire brigades took 53 hours to control the flames.

Apart from examining security in the tunnels linking the two countries, Mr Jospin said safety checks would be carried out on some 20 large tunnels inside France. "We must consider a relaunch at both national and European level of combined road and rail freight transport."

This appeal for a switch to rail freight was picked up by Michel Barnier, a Gaullist senator for the Haute-Savoie region, who urged the French and Italian governments to send "a clear signal" for a new high-speed rail link between Lyons and Turin, via a 52km tunnel under the Alps.

At a Franco-Italian summit in 1997, FFr350m (€53.8m, $57.8m) was earmarked for studies on the rail tunnel. Both governments are still hesitating over the costs.

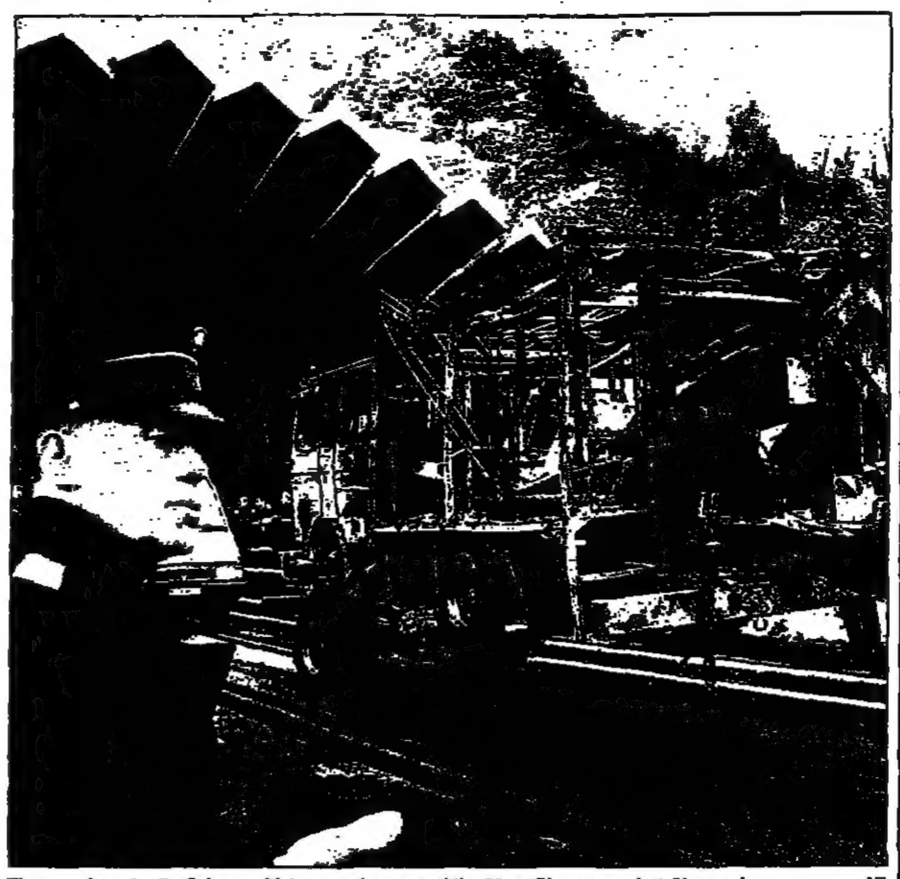
Mr Barnier said road freight had grown five times since 1970. "In a few years, it will be unbearable in terms of pollution and security."

At present, only 10m of the 35m tonnes of goods carried through the Alps between France and Italy goes by rail; the rest goes by road. Of this, 12.7m tonnes goes through the single gallery tunnel under Mont Blanc.

The remaining Alpine road freight goes via the 12.8km Fréjus tunnel, which has a more modern security and smoke evacuation system.

Since last week's fire, most of the traffic has rerouted via the Fréjus tunnel. As a result, the average daily flow of heavy trucks through Fréjus has risen from 2,800 to 5,800; the number of light vehicles has doubled to 4,000.

Trucking companies said yesterday that switching to the Fréjus tunnel added an extra 90 minutes to a journey. Others said they were opting for the even longer coastal route along the Riviera.



The remains of a firefighter vehicle are taken out of the Mont Blanc tunnel at Chamonix AP

# Diluted farm reforms sap EU stance

By Michael Smith in Brussels

A dilution of farm aid reforms by European Union government heads will reduce the Union's negotiating strength in forthcoming talks to liberalise world trade, the European Commission acknowledged yesterday.

The Commission insisted that the reform was the biggest ever negotiated for the EU's Common Agricultural Policy and the union was in a "fairly strong position" for World Trade Organisation talks due to start next year.

However, a spokesman conceded the EU's position at the WTO would "not be as strong as it would have been had the Commission's proposals been approved".

The EU's trading partners, including the US and Australia, have been pressing hard for the union to cut subsidies for farmers that are directly linked to prices.

The Commission had proposed reforms, centring on price cuts in cereals, beef and milk, with the aim of preparing the union for the WTO talks and enlargement to eastern Europe.

But in the last few hours of negotiations last week government heads decided to scale down price cuts for cereals agreed earlier by farm ministers and to delay a reform of the dairy regime, including price cuts, until 2005.

They also agreed to "stabilise" the CAP budget at about the €40.5bn ($43bn) level of 1999 during the reform period of 2000 to 2006. EU officials, however, are concerned that the diluted reforms agreed by government heads will be insufficient to meet demands for a spending freeze.

The costs of the cereals regime is one uncertainty. By reducing cuts in guaranteed prices, from the 20 per cent agreed by farm ministers to 15 per cent there will be increased costs for buying in cereals, the scale of which will depend on world prices.

Diplomats were concerned the conclusions of the heads of government summit in Berlin made insufficient allowance for this.

They suggested yesterday that the budget over-run potential – together with pressure from the EU's trade partners in the WTO talks – will force further farm aid changes in two or three years time.

The agreement provides scope for this by making provision for a further reduction in cereals prices in 2002-3 "in the light of market developments" and a review of the milk sector.

It also calls on the Commission to report in 2002 on measures necessary to ensure that spending is line with the budget "stabilisation" objective.

# EU countries keen to maintain state aid

By Emma Tucker in Brussels

European enthusiasm for state aid shows little sign of cooling off, according to new figures presented by Karel Van Miert, the competition commissioner, to the European Parliament yesterday.

Subsidies given to manufacturing industry in the European Union between 1995/97 amounted to an annual average of €37.7bn ($40bn). Excluding Sweden, Finland and Austria (which joined the EU in 1995), the figure was €36.4bn compared with €42bn for the same countries during 1993/95 – a 13 per cent drop.

However, the fall was almost exclusively because of a sharp decrease in aid levels in Germany, (where aid to the former communist *länder* dropped by 30 per cent) and to a lesser extent France and Italy. There is no downward trend in the overall figure once subsidies to Germany's eastern *länder* are stripped out.

"The continuing high level of aid and the fact that the current decrease is due to an exceptional reduction in Germany provide strong reasons for the Commission to maintain its pressure on state aid in the Community," said the report on state aids.

"Aid measures should not be allowed to protect industries or non-viable businesses and thereby provide a means to export unemployment from one member state to another," it concluded.

The figures are likely to intensify pressure on member states to give stronger, possibly binding, commitments to reduce overall aid levels, viewed as a serious distortion to the single market.

Although the Commission has waged a relentless battle against anti-competitive subsidies, its efforts have made little headway in countries such as Germany and France, which continue to support companies through direct grants, tax breaks and guarantees.

Officials fear that aid levels could go even higher now that the single currency has been launched and state assistance becomes one of the few ways left for governments to protect companies from more intense competition.

The report shows sharp disparities between member states with aid levels in Greece six times higher than in the UK and Sweden, the lowest subsidisers. Although the EU's four biggest economies – Germany, Italy, France and the UK – still account for most of the aid to manufacturing industry, their share has decreased from 87 per cent to 82.

Germany accounts for 37 per cent, Italy for 28 per cent, France for 12 per cent and the UK for 5 per cent of the total amount of aid granted to the pre-1995 EU 12.

# Paris cuts growth figures

By Robert Graham in Paris

The French finance ministry yesterday revised downwards its growth figures for the current year from 2.7 per cent to a band of between 2.2 and 2.5 per cent.

The revision was the first formal acknowledgement that French economic growth was being hit hard by the emerging markets crisis despite strong domestic demand. A statement from the finance ministry said export-oriented industries were the most affected.

The slowing of industrial production was underlined yesterday by the March survey of manufacturing activity published by Insee, the official statistics institute. This showed the balance of companies reporting that the increase in production was well down, with stocks being cut to accommodate softer demand.

Officials nevertheless pointed out that France would still be the strongest of the Group of Seven economies in Europe with gross domestic product likely to grow a full percentage point more than in Germany and Italy.

Analysts yesterday expressed surprise that the finance ministry had presented its new projections so cautiously.

The finance ministry said it believed the economy was expected to pick up in the latter part of the year and forecast 270,000 jobs would be created.

This year's budget was framed against a 2.7 per cent growth target and yesterday officials said the deficit would be held to its target of 2.3 per cent of GDP. However, the inflation target of 1.3 per cent for 1999 looked out of line as economists suggested consumer prices would increase only 0.5 per cent on current trends.

● Germany's leading business federations yesterday welcomed the government's suggestions it might withdraw some big state subsidies to finance corporate tax cuts, but warned implementation could be difficult, writes Haig Simonian in Bonn.

Hans Peter Stihl, president of the German Industry and Trade Federation (DIHT), called for a 20 per cent cut in subsidies over the next five years as part of a broader package to lower company taxes. Hans-Olaf Henkel, president of the Federation of German Industry (BDI), said it was unrealistic for the government to expect business to produce its own list of cuts.

The associations were reacting to comments by Werner Müller, acting finance minister, that industry should agree to a "hit list" of state subsidies that could be withdrawn. A

**Economic indicators for euro-11 countries**

| | Feb 1999 | Jan 99 | Dec 1998 | Nov 98 | Oct 98 | Sep 98 | 1998 | 1997 |
|---|---|---|---|---|---|---|---|---|
| Inflation (annual % change) | 0.6 | 0.8 | 0.8 | 0.8 | 0.9 | 1.0 | 1.1 | 1.6† |
| Unemployment (%) | n.a. | 10.8 | 10.7 | 10.8 | 10.8 | 10.9 | 10.9 | 11.6 |
| Trade (Ecu bn) | | | | | | | | |
| Exports | n.a. | n.a. | 63.9 | 65.6 | 68.3 | 65.6 | 790.2 | 762.1 |
| Imports | n.a. | n.a. | 57.9 | 59.3 | 61.4 | 61.3 | 707.4 | 673.4 |
| Trade balance | n.a. | n.a. | 6.6 | 6.5 | 6.9 | 4.3 | 82.7 | 88.7 |
| Current account (Ecu bn) | Q3 1998 | | Q2 98 | Q1 98 | | Q4 97 | | Q3 97 |
| Current account balance | 21.5 | | 25.0 | 12.4 | | 28.6 | | 28.0 |
| As % of GDP | 1.5 | | 1.7 | 0.9 | | 2.0 | | 1.9 |
| Industrial production (%) (3 mo over previous 3 mo) | Oct-Dec/Jul-Sep | | Sep-Nov/Jun-Aug | Aug-Oct/May-Jul | | Jul-Sep/Apr-Jun | 1998 | 1997 |
| | -0.3 | | 0.0 | 0.1 | | 0.2 | 4.2 | 4.1 |
| GDP growth (%) | Q4 1998 | | Q3 1998 | Q2 98 | | Q1 98 | 1998 | 1997 |
| Over same quarter last year | 2.4 | | 2.9 | 3.0 | | 3.2 | 3.0 | 2.5 |
| Money supply | Jan 1999 | | Dec 1998 | Nov 1998 | Oct 98 | Sep 98 | | Aug 98 |
| M3 Annual growth rate (%) | 5.7 | | 4.5 | 4.6 | 4.5 | 4.4 | | 4.3 |

* provisional ** estimated † estimated due to Ireland, for which quarterly index numbers for 1995 and 1996 were used [illegible] †† annual % change
Source: Eurostat

# Weakness is a strength

ECB watch

By Tony Barber in Frankfurt

If the nicest presents are unexpected ones, the euro's weakness since its launch is turning out to be the perfect gift for the European Central Bank.

The euro's 8 per cent fall against the dollar, though hardly expected in January, has effectively eased monetary conditions in the euro-zone without requiring the ECB to cut interest rates, a measure it was evidently reluctant to take too soon after the currency's birth.

At the same time, Europe's economic weakness – especially noticeable in Germany and Italy, which account for about half of the euro-zone's gross domestic product – means manufacturers and exporters would dislike nothing more than a strong euro.

"A lower dollar – and hence a stronger euro – would be quite a problem for Euroland," says Thomas Mayer of Goldman Sachs investment bank. "Investment growth would slow even more, with negative consequences for job growth. The loss of jobs would undermine consumer confidence and hence consumption growth."

A weak currency sometimes harms an economy by raising import prices and stoking inflation, but Adolf Rosenstock of Nomura Research believes the ECB is unlikely to view this as a serious risk.

"Unlike two and a half years ago, when D-Mark weakness threatened to push import price inflation above 5 per cent, it is now easing the deflationary impact of collapsed raw material and energy prices," he says.

Economists say the euro's weakness largely reflects the US economy's unexpected strength and the euro-zone's difficulties. Financial markets suspect the US Federal Reserve will keep interest rates unchanged for the rest of this year, while the ECB's next move will be a cut.

For its part, the ECB seems unbothered. "When I read that the euro has hit a historic low, one almost has to laugh. The euro is barely three months old. Everything we observe is either a historic low or a historic high," Otmar Issing, the ECB's chief economist, said yesterday.

Seen in this light, the biggest threat to the euro-zone may be a fall in the US stock market that could herald a slowdown in its economy.

"At present, the biggest risk for Euroland is not so much an even weaker euro, but a lesser attractiveness of US financial assets," Mr Mayer says. "In this case, capital flows to the US would slow and the euro would rise. This would reinforce Euroland's domestic economic weakness."

# Tokyo sets out to shrink excess production capacity

By Naoko Nakamae in Tokyo

The Japanese government yesterday made its first overt attempt to grapple with supply side problems such as excess production capacity, amid the country's worst recession in the post-war era.

The government has set up a new advisory panel comprised of government officials and business leaders, which will convene every month this year to discuss policies to help revive Japan's flagging industries.

Although Japan has created numerous committees in recent years to address fundamental economic problems, this comes at a time of growing political consensus that the Japanese industrial sector needs to be reformed.

It also comes at a time when an increasing number of foreigners are buying into Japanese companies.

In particular, the so-called Conference for Industrial Competitiveness, which includes Keizo Obuchi, prime minister, Kiichi Miyazawa, finance minister, Kaoru Yosano, Minister of International Trade and Industry, Takashi Imai, chairman of the Federation of Economic Organisation and the heads of Sony and Toyota, yesterday emphasised the need for the corporate sector to get rid of excess production capacity.

"The time has come to start strengthening the supply side of the economy to put the economy on a self-sustaining recovery track," said Mr Obuchi.

These proposals come at a time when the government is running out of fiscal measures to stimulate the economy. Although it has concentrated primarily on measures to stimulate demand so far, it is now faced with a ballooning budget deficit and cannot spend any more money. It is also unable to ease monetary policy any further without entering unprecedented territory, as interest rates trend ever closer to zero.

Such policy problems have led the government to place emphasis on private sector reforms rather than traditional public sector policies it has peddled in the past.

The panel yesterday also decided to consider introduction of a debt for equity swaps scheme to help cut the debt of companies who scrap surplus facilities. A financial institution would give up part or all of its claims against a company in return for a stake in it.

■ The continuing weakness of the Japanese economy was underlined by data released yesterday showing an unexpected fall in industrial output, weak exports and poor retail demand in February, writes Paul Abrahams in Tokyo.

Japan's industrial production fell 0.6 per cent month on month during February, according to the ministry of international trade and industry. The drop was accompanied by a 2.3 per cent drop in shipments and a 0.5 per cent rise in inventories, mostly accounted for by a sharp rise in unsold vehicles.

Year on year, output fell 5.2 per cent and shipments 3.6 per cent, but inventory adjustment continued, down 9.3 per cent. The Ministry of International Trade and Industry predicted output would rise 0.8 per cent month on month during March, but fall 3.4 per cent in April.

# Boost for Japan petrol groups

By Alexandra Harney in Tokyo

Japanese petrol groups will be exempt from taxes on capital gains accrued by combining facilities starting in April, under new legislation that represents a substantial revision to the Japanese tax code.

The law, approved by the Ministry of International Trade and Industry (Miti) and the Ministry of Finance last month, is aimed at encouraging companies to restructure and eliminate surplus facilities that are weighing on profits as well as promoting new business development.

It comes as Miti is considering additional incentives to make it easier for manufacturers to shed excess plants and workers.

Analysts and industry executives said the tax exemption was likely to stimulate further consolidation and restructuring, particularly in the petrol sector, where sluggish cash flows have prevented companies from closing excess facilities and merging divisions with other companies to cut costs.

"For (the oil companies), the restriction was like paying the government, and for the weaker companies, that was a real deterrent," said Lalita Gupta, analyst at Deutsche Bank. "It was one of the problems that was stopping the industry from consolidation," she added.

The new exemption, part of the Law for the Promotion of New Business Creation, greatly expands the number of industries eligible for special tax treatment, including the troubled petrol and retail sectors, and makes it easier for companies to create joint ventures that pool their sales, distribution, or manufacturing divisions.

Specifically, it allows companies to mothball and sell unprofitable facilities, and create a new corporate entity without paying tax on the resulting gains. Other provisions in the law are intended to stimulate founding new businesses.

# Indonesia brings relief to banks

By Sander Thoenes in Jakarta

Indonesia yesterday announced it had agreed with 13 big commercial banks on a framework for exchanging short-term loans into longer-term liabilities guaranteed by the central bank, offering relief to the country's distressed banking sector and easing pressure on the rupiah.

The agreement built on a larger debt restructuring pact reached last summer, which called for rescheduling of $9.2bn in bank debt falling due through December 31, 2001, and resumption of trade finance. Bank Indonesia, the central bank, guaranteed all bank liabilities early last year but only now finalised the terms.

Officials said a steering committee headed by Bank of Tokyo-Mitsubishi, Chase Manhattan Bank and Deutsche Bank, had pledged last week to swap outstanding loans to Indonesian banks and their offshore branches and subsidiaries for new loans guaranteed by Bank Indonesia.

The new loans would mature in 2002 through 2005 at interest rates of 2.25 to 2.75 per cent over Libor.

Bank Indonesia asked creditors to extend maturities to June 1 of this year pending completion of the exchange offer. Short-term trade finance and loans covered under a 1998 interbank exchange offer would not be included.

# Citic Pacific chairman urges China caution

By Rahul Jacob in Hong Kong

Closure of a large Chinese mainland investment company last year had been a salutary warning for foreign creditors and local companies, despite the subsequent credit squeeze faced by companies in China, the head of the most prominent mainland-backed company listed in Hong Kong said yesterday.

Larry Yung, chairman of Citic Pacific, the Hong Kong arm of Beijing's main investment vehicle, was commenting on the sudden closure of Guangdong International Trust and Investment Corporation (Gitic) last year which shocked foreign bankers who believed their loans were guaranteed.

In addition to clamping down on provincial companies with foreign borrowings, the Chinese government was trying to send a message to foreign banks not to suspend their standard due diligence practices when doing business in China, Mr Yung added.

"[The government is saying] when you invest in China, think about whether it is a good project and whether it has good management. Please look at its capability to repay you. This is a two-sided warning."

As the financial difficulties of other mainland companies have come to light over the past few months, "red chip" companies such as Citic – mainland backed companies listed in Hong Kong via their subsidiaries – have on average seen their stocks plummet 14 per cent since the beginning of the year, after a steep drop last year.

Larry Yung: 'Please look at a group's capability to repay you. This is a two-sided warning'

Mr Yung said that the frenzy in 1997 that saw investors bidding up the price of the shares of such companies to levels 30-50 times their earnings had been similarly devoid of business logic.

"There was a lack of the most fundamental analysis in business decisions. People in China seem to have thought: 'It is so easy to raise money'. In Hong Kong people thought: 'Buy it today, tomorrow it can double'," said Mr Yung.

The "red chip" mania was the most glaring example of the frothiness of a stock market and property bubble in Hong Kong that burst in late 1997, pushing the territory into a severe recession last year.

Recently, there has been a replay of the situation with loans to other provincial investment companies on toll roads and power projects backed by Chinese state or municipal authorities.

Foreign investors in toll roads, power plants and other infrastructure projects in China have learned that certain projects that they believed had offered a minimum return on their investments might not be able to make these payments.

Citic Pacific announced earlier this month it was selling stakes in a toll road and two water-treatment plants that promised such returns. Mr Yung said his company had had no problem receiving payments, but was concerned about the reliability of the returns going forward.

Hong Kong bank sector rides out the storm, Page 24

# Bank sale deadline nears, but selling off the state goes against the grain in Pakistan

The political obstacles to privatisation are still formidable in spite of the need for new revenue sources, writes **Farhan Bokhari**

Khawaja Asif always knew he would have his work cut out for him.

As chairman of Pakistan's privatisation commission Mr Asif is anxious to see the successful sale of Habib Bank, the country's largest, by tomorrow after two earlier deadlines passed without a credible buyer emerging. That would be the good news.

The bad news is that an ugly protest against aspects of privatisation has been threatened.

Employees of Sui Southern, one of Pakistan's two gas companies, have said they would set fire to themselves outside the parliament building in protest at the sacking of 500 employees earlier this year. The sackings were part of a management plan to reduce the company's costs in preparation for its privatisation.

While banks have managed to get away with sacking workers, other public sector companies have been promised a fightback by unions.

The privatisation programme is essential for the country to help reduce large budget deficits, driven up year after year by public sector losses. It is a difficult choice for a country that went down the path of large-scale nationalisation in the early 1970s followed by growing corruption and inefficiency in state-owned companies.

For the moment, Mr Asif is mainly pre-occupied with Habib Bank, the sale of which would give impetus to the programme and help to improve official revenues. Pakistan is bound under an International Monetary Fund programme to reduce its budget deficit by more than 2 per cent of gross domestic product, bringing it down to 3.3 per cent of GDP next year. The last two deadlines for Habib Bank, which has more than 1,700 branches in Pakistan and 65 branches worldwide employing a total of 22,000, were extended mainly because of concerns that the prospective foreign buyers may not have received subsequent clearance from offshore licensing authorities.

The offers came from four groups of investors mainly backed by Middle Eastern businesses, and Daewoo corporation of South Korea. None had previous experience of running a global banking network.

Habib Bank managed to record operating profits last year of Rs1bn ($19m) after a loss of Rs2.7bn the year before. However, its bad loan portfolio of Rs38bn constitutes a quarter of all non-performing assets in the Pakistan banking system.

The authorities are hoping Habib's sale will give momentum to the programme. "We're now warming up and we're concentrating on three or four transactions," says Mr Asif, chairman of the privatisation commission. "If we can successfully complete these, the process will develop its own dynamics."

Next on offer after Habib is expected to be United Bank, the Karachi Electricity Supply Corporation, which serves the city of Karachi, and Pakistan Telecommunications Corporation, the national telecoms company. These are among the largest from a group of 53 companies eventually proposed to be privatised, raising more than $20bn in the next four to five years, according to the World Bank.

While 97 companies have already been privatised, with receipts of more than Rps60bn, analysts say that the heart of the public sector has not come on board yet.

Officials say that investor confidence is likely to improve in coming months, after a recent agreement with the IMF for a new loan of $575m. Pakistan has also restructured bilateral debt of about $3.3bn with its Paris club (official) creditors. The government says that it hopes to conclude negotiations soon to restructure at least $1bn in commercial debt.

Critics are unconvinced. Investor confidence has suffered badly in the past two years, for a number of reasons. Until recently, the government's main anti-corruption agency has relentlessly pursued investigations into alleged corruption in 19 private power generation companies, many with foreign participation.

No evidence of alleged "kickbacks" or bribes involving the previous government of Benazir Bhutto, with which the power companies concluded their contracts, has been made public. Critics say the campaign was a political vendetta, meant to prove that foreign investment under the former regime was primarily designed to deliver bribes to officials in Ms Bhutto's government. "People are genuinely frightened after the private power experience," says Zahid Zaheer, secretary general of the Overseas Chamber of Commerce and Industry, the umbrella organisation of foreign businesses in Pakistan.

There are also complaints about long delays. Telecom privatisation, for instance, was first announced eight years go.

"The long list of broken schedules, especially on telecoms has made many investors wary," says Abid Naqvi, chief analyst at Karachi's Taurus securities equity house.

"It may take a while for confidence to recover."

# Malaysia calls for help in combating viruses

By Sheila McNulty in Kuala Lumpur

Malaysia is calling on volunteers to help the authorities combat two deadly viruses emanating from pigs that have killed more than 60 people.

Chua Jui Meng, health minister, said the volunteers were needed to help spread disinfectant and detergent around pig farms to contain the epidemic.

Eight soldiers involved in the clean-up operations were reported admitted to hospital with viral symptoms.

They were part of a 2,000-strong team from the army, police, fire and rescue department, veterinary services and local councils who have been working mostly to kill and bury 356,000 pigs.

The authorities had in the months since the outbreak began in October blamed the deaths solely on Japanese Encephalitis, which is spread from pigs to humans via mosquitoes.

They had fumigated infected areas to kill mosquitoes and recommended immunisations against the virus, called Hendra. But deaths had continued to mount.

In March, they announced that another virus, similar to Hendra, was also to blame. The Hendra-like virus is believed to be spread to humans through direct contact with live, infected pigs, and is thought to be killed by disinfectant and detergent.

Opposition politicians have been critical of the authorities' failure to seek outside assistance and identify the second virus sooner.

Malaysia has finally called in experts from the US Centre for Disease Control and Prevention and Taiwan.

# Teething troubles abound as Nigeria tries to wean itself off state ownership of industry

Privatisation is a key element in attempts to revitalise the economy. But vested interests, regional rivalry and fears of corruption have led to confusion and delay, reports **William Wallis**

When officials of Nigeria's state-owned electricity company, Nepa, were asked the cause of a recent nationwide power cut, their response was to remain silent.

Was it the storms outside? Or was this the swansong of the last functioning gas turbines at a thermal plant?

At Nepa headquarters in the commercial capital, Lagos, officials passed the question up and down the stairwell. But the roar of a diesel powered generator outside the building floored their attempts to persuade that all was well.

To make up for the failures of the national electricity grid, Nigerian business is spending millions of dollars each year on fuel for its own generators. The state, meanwhile, is unable to afford even basic maintenance of its collapsing utilities.

If an increasing number of Nigerians, including the military head of state, Abdulsalami Abubakar, now favour privatisation as the route out of the current economic cul-de-sac, a diminishing number are able to explain how and when it will take place.

Ten months after Gen Abubakar took office and pledged to sell off or commercialise more than 40 state-owned companies, his programme is in limbo. The plan was ambitious: to make irreversible progress towards the commercialisation of key utilities, symbolically sell some of the smaller companies and the oil refineries, and thereby tie the elected government he intends to hand over to by the end of May into continuing the programme.

Familiar Nigerian problems have intervened. The most damaging has been a turf war between competing government advisory bodies for control of the programme, which could – if it attracts the right foreign partners – bring in the biggest inflow of investment Nigeria has seen outside the upstream oil and gas sector.

This first battle appears to have been resolved with the dismissal this month of the board of the Bureau of Public Enterprises, and the sidelining of its influential chairman, Hamza Zayyad.

**For advocates of privatisation, disappointment that the outgoing military administration has been unable to stick to its plans is now outweighed by worries that the incoming civilians will be even less effective**

His own commitment to privatisation during 12 years of involvement in a faltering programme was questioned by some critics. But another one looms: between the outgoing military administration and the incoming president elect, Olusegun Obasanjo, and his People's Democratic party.

Officials connected with the recently inaugurated National Council on Privatisation – chaired by Gen Abubakar's deputy, Mike Akhigbe and including the finance and planning ministers – say their plans are now modest and well behind the target outlined to the IMF in January.

"All we hope to do before the handover in May, is put the legal and institutional framework in place," said one.

Yet, there has been considerable speculation about a "rush" by the outgoing administration, to sell off, and grab a stake in everything from fertiliser plants and oil refineries to Nigeria's debt-ridden airline.

This has renewed public fears that privatisation is intended less as the motor of national economic growth than as a route to the further enrichment of the generals and their cronies.

The response from the camp of the presidentelect has been to pour cold water on the plans, thereby casting doubt on its own commitment to this key sector of economic reform which is vital to IMF support.

Underlying the confusion are some of the same tensions which have led to decades of centralised military rule in Nigeria. State ownership has played an important role in the political dominance of the Moslem north. While many influential northerners appear to have accepted the principle of privatisation now, fears remain that the sale of public enterprises from which their patronage power has derived, will benefit southern rivals who control most other aspects of the economy.

Disagreements over the relative merits of golden shares and other side issues, have thus taken up valuable time when work on the complex regulatory framework and due diligence reports has not begun.

For advocates of privatisation, disappointment that the outgoing military administration has been unable to stick to its plans is now outweighed by worries that the incoming civilians will be even less effective.

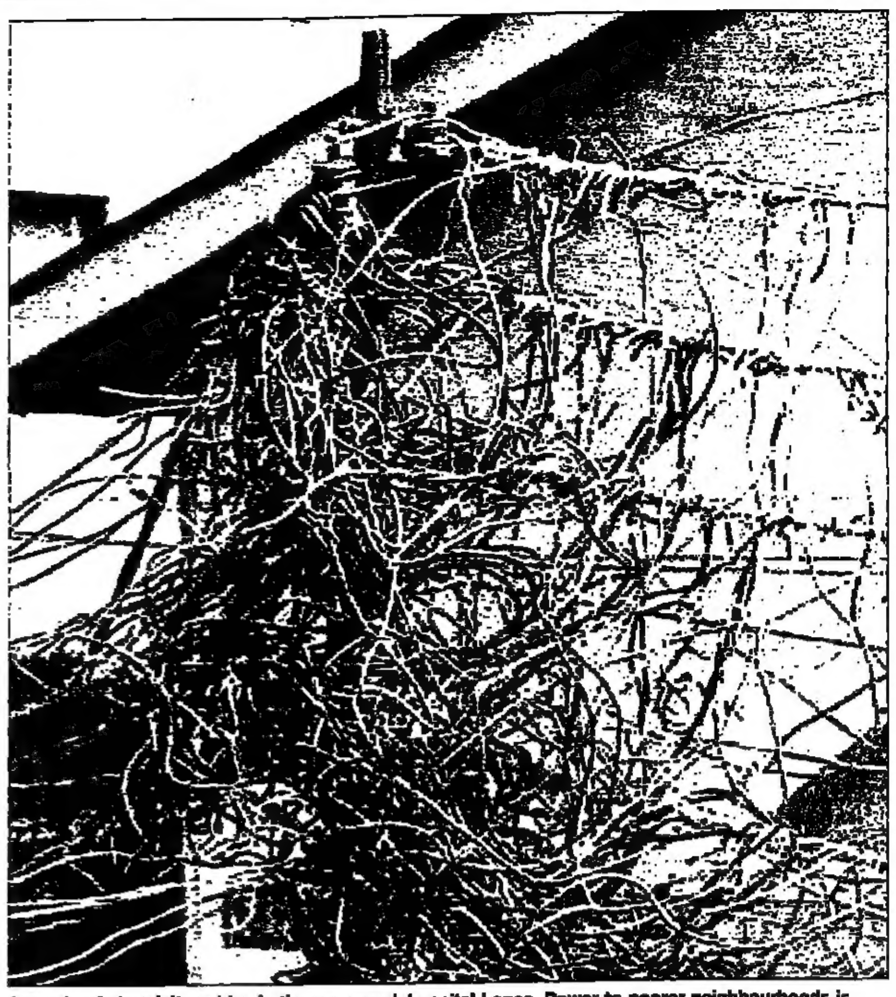
The list of potential obstacles is long. The national assembly is likely to string out the debate and scrutinise the details. There are fears that members may be vulnerable to financial inducements from those with vested interests in prolonging state ownership.

Meanwhile the unions are struggling to reassert themselves after years of repressive military rule.

"When the first man goes into Nepa to carry out due diligence, he may be stuck for months before getting any answers. They are all afraid of losing their jobs," a financial official adds.

Confronted with low oil prices and a deepening economic crisis, Gen Obasanjo will ultimately have little choice but to plough ahead. When he takes over there will be no room for spending on decrepit steel mills and collapsing refineries.

And without reliable power and communications, dreams of an economic revival for Africa's most populous state, are likely to remain just that.



A tangle of electricity cables in the commercial capital Lagos. Power to poorer neighbourhoods is intermittent at the best of times while industry is forced to use expensive diesel generators

ISRAELI ECONOMY

# Bank chief forecasts 2.5% growth

By Judy Dempsey in Jerusalem

Israel's economy will grow 2.5 per cent this year while inflation will fall to 4 per cent, Jacob Frenkel, governor of the Bank of Israel, said yesterday.

His remarks coincided with a cut of 0.5 per cent in the key lending rates, to take effect next month. While it will bring down interest rates to 12.5 per cent, real interest rates are more than 8 per cent once inflation expectations are taken into account.

"The BOI might be just a bit too optimistic in its forecasts," said Christa Marti, senior economist at Warburg, Dillion Read, the investment bank.

The bank has set a growth forecast of 1.7 per cent. "Its monetary policy has been kept tight to reduce inflation. But the price is lower growth." The economy grew 2 per cent last year but recorded a 0.4 per cent fall in per capita GDP.

Mr Frenkel, however, insisted he would continue to adopt a "cautious" monetary policy, given the "continuing uncertainty" in the global economies.

His priority, he added, was to keep inflation under control while preventing any significant devaluation of the shekel.

Last year, after the economic crisis in Russia and south-east Asia, Mr Frenkel increased interest rates by four percentage points in a bid to stem inflation and prevent any run on the shekel which last year lost 10.2 per cent in value against the US dollar.

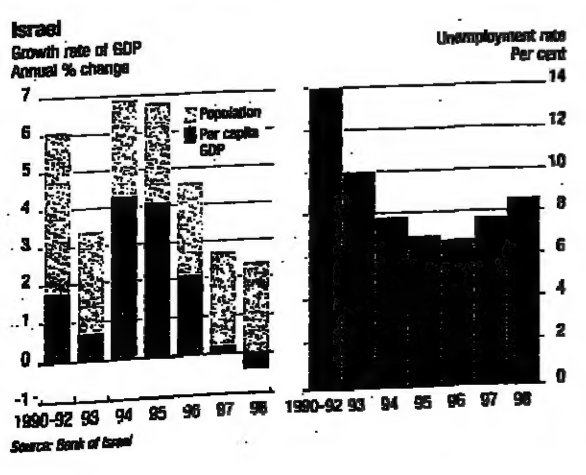
The economy has been flat for nearly three years, partly because the large Russian immigration, which reached about 170,000 a year between 1990 and 1995, slowed to less than 50,000 a year.

The new immigrants fuelled a consumer boom which led to growth of 6.9 per cent in the mid 1990s. It also boosted the construction sector which last year fell 4.2 per cent compared with a decline of 1.7 per cent the previous year.

Israel's economy has also been hit by the global crisis, with exports to south-east Asia falling as much as 20 per cent last year.

But ultimately, the economy is in transition, shifting from a low valued-added economy to one increasingly based on electronics and other high technology industry.

As a result, unemployment has risen from 6.7 per cent in 1996 to 8.6 per cent last year. Mr Frenkel said he expected little change this year, which will not bode well for Benjamin Netanyahu as he seeks re-election as prime minister in the May 17 poll.




Source: Bank of Israel

# EU offers olive branch on aircraft noise

By Michael Smith in Brussels and Guy de Jonquières in London

The European Union yesterday averted the immediate threat of a trade conflict with the US by postponing for a month adoption of rules to curb aircraft noise and promising to consider changes to the legislation.

The decision, by EU transport ministers in Brussels, was welcomed by Rodney Slater, the US transportation secretary, who visited Europe last week to urge EU members to delay a decision.

Yesterday's move, coupled with plans by the two sides soon to start talks on resolving the dispute, is expected to dissuade the US Senate, at least temporarily, from carrying out a threat to ban British Airways and Air France Concorde flights in retaliation against the EU proposal.

The Senate began a two-week recess at the weekend. David Aaron, US commerce under secretary, said he did not expect it to act as long as the planned talks with the EU continued.

The original EU proposal would have prevented aircraft fitted with hush kits from flying in the EU after April 1 2002 unless they were already operating there before April 1 this year.

The proposal could force airline companies to buy new aircraft to meet international standards on noise reduction. US airlines say the EU hush kit restrictions could cost them $1bn.

EU transport ministers agreed that the directive would be adopted intact by April 29, except that the exemptions for aircraft already using hush-kits would apply from that date rather than April 1.

Neil Kinnock, transport commissioner, said talks with the US would intensify over the next few months. If they produced proposals that met US concerns and satisfied EU objectives, the European Commission would propose amendments for approval by EU members and the European Parliament.

"Now we have the certainty of the EU and US working together to try to achieve global standards for noise measures. Many had expected a Gunfight at the OK Corral. Now we have the Little House on the Prairie," Mr Kinnock said.

The US has asked the EU to co-operate with it on formulating a new set of noise reduction rules that would be accepted globally. Mr Aaron called the offer unprecedented, but said the EU's decision to adopt its noise legislation on April 29, before talks with Washington had even begun, was premature.

Assuming the EU and US can agree on changes to the legislation, it could take 18 months to get the amendments approved by the Europe's parliament and member states. However that would be enough to ensure changes were in place by April 2002.

# Construction machine sales hit record

By Peter Marsh, recently in Duisburg

Stable economic conditions and confidence over the start of the European single currency lifted last year's west European sales of construction equipment to the highest for a decade, a report by Off-Highway Research, a London consultancy, shows.

The consultancy, which monitors the construction equipment industry, said that west European sales of construction machines such as excavators, climbed 12 per cent to 118,296 last year from 105,743 in 1997.

The figure was a record – beating the previous peak of 106,210 units sold, in 1995.

Construction machines sold across Europe are valued at about $20bn a year, including spare parts.

Demand for the equipment – including excavators, loaders and dump trucks (but not including cranes, cement mixers and cement pumps – Off-Highway Research only takes account of 75 per cent of this sector) – is an underlying measure of overall economic conditions.

Most of the sales are linked to big projects such as road or bridge building, in which government finance plays a large part, as well as house building.

Off-Highway Research says in its annual review of the industry that sales of the machines in the second half of 1998 "were little short of startling". This was linked to a sudden release of spending on building projects by west European governments.

Most had curbed public spending in previous years because of the need to meet economic criteria for European monetary union, which began on January 1.

According to the consultancy, about three-quarters of the total spent on construction in Europe is linked to public funds. Hence, the release of government money for such projects led to a boost in the demand for machinery.

Other factors which helped increase demand for the equipment were low inflation and interest rates, the consultancy said.

The surge in demand benefited a number of big companies which supply the equipment in Europe, including Caterpillar and Case of the US, Liebherr of Switzerland, JCB of Britain, New Holland of Italy, and Volvo of Sweden.

Southern European countries such as Spain and Italy saw a particularly big increase in sales of the equipment; Germany also experienced an upsurge after several years of relatively muted growth.

Among the main European countries, only Britain experienced a fall in demand, seeing sales of construction machines slip 5 per cent from just over 18,000 in 1997 to 17,336 in 1998. The biggest year-on-year surge across the continent was in Spain, where sales increased 42 per cent to 8,777.

Smaller European countries saw increases in demand, the report indicated. Sales of the equipment in the biggest four economies (Germany, France, Italy and Britain) accounted for 71 per cent of total west European sales, against 78 per cent in 1995 and 84 per cent in 1993.

After last year's sales growth, which followed a 7 per cent rise in 1997, demand for the equipment is likely to fall back this year, slipping 6 per cent across the continent against figures for 1998, the consultancy says.

Demand for new equipment was not significantly affected last year by the importing into Europe of large numbers of "grey market" machines from South-east Asia. These constitute equipment sold at relatively low prices by some Asian producers hit by weak conditions in their domestic markets, and which are officially classed as sales of second-hand equipment.

Off-Highway Research's figures show that the healthy trend in Europe was also seen in North America, where sales of new construction machines rose 9 per cent in 1998 to 169,685, from 155,375 in 1997.

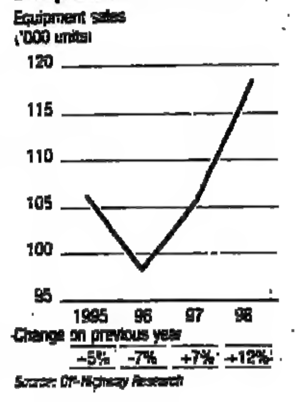
But in Japan, last year's sales fell 24 per cent to 78,142 from 103,341 in 1997.

This was a reflection of the poor state of the Japanese construction industry following the long period of weak economic growth.

*Annual review of the construction equipment industry, 1999, Off-Highway Research, 7 Upper St. Martin's Lane, London WC2 H9DL. £325.*

**European construction**

Equipment sales ('000 units)




Source: Off-Highway Research

**MEMBERSHIP OF WORLD TRADE BODY** US OFFICIALS OPTIMISTIC OF EVENTUAL DEAL AFTER DISCUSSIONS WITH CHINESE LEADERS

# China enters last lap in talks on joining WTO

By James Kynge in Beijing

The US said yesterday it had entered the final stages in talks on Beijing's proposed entry into the World Trade Organisation amid a host of new signs that strains in the bilateral commercial relationship have eased.

"We are all cautiously optimistic that a deal can be done but as in any good negotiations, sometimes the most difficult issues are left to the very end," said William Daley, the US commerce secretary, after talks yesterday with Zhu Rongji, China's premier.

"We are getting down to the final negotiations," Mr Daley added. He said it was clear that Beijing really wanted a WTO deal, despite differences of opinion on the issue within the government.

The arrival of Charlene Barshefsky, the US trade representative, in Beijing yesterday was another positive signal that real possibilities for a WTO deal exist. Ms Barshefsky had not been expected to visit Beijing for a second time this month unless chances of substantive progress appeared genuine. Ms Barshefsky is expected to leave Beijing today.

It was far from certain, however, that the US and China would be able to reach even an outline WTO agreement in time for Mr Zhu's visit to the US from April 6 to 14. Although differences were being closed by intensive negotiations, many remained. One official said that the talks could drag on for several months.

But the immediate indications seemed heartening. Mr Daley said that Mr Zhu had given "very positive" answers to the questions of US businessmen on whether US companies would be able to invest in telecoms services and export equipment to China. Currently, foreign companies are not permitted to invest directly in telecoms service enterprises and Beijing has discouraged the import of telecoms equipment.

The progress came despite a welter of disputes in other areas of the relationship including US criticism over China's human rights record, China's vehement opposition to Nato's bombing of Yugoslavia and allegations in Washington that Beijing connived to steal nuclear secrets from a US laboratory.

China is keen to divorce its commercial relationship with other aspects of engagement. A senior trade ministry official said yesterday that Beijing was keen to improve the investment environment for companies as a way of boosting flagging foreign direct investment.

Foreign companies would be allowed to form joint ventures with local trading companies, thereby winning the right to import and export and distribute goods in the domestic marketplace, the official added. She also promised a "major" deregulation of China's partially closed retail market.

The US, too, seemed ready to ease restrictions. William Reinsch, under secretary at the US bureau of export administration, said that a 2,000 MTOPS (millions of theoretical operations per second) limit on computer chip sales – which bars a significant number of US chip exports from China – was under review and likely to be adjusted.

The ceiling is low enough to mean that Intel's Pentium III Xeon, which is due to be launched before June, would be kept out of China. Liu Chuanzhi, the chairman of Legend computer and the Chinese computer industry leader, said that US restrictions on exports would merely hand the market over to competitors from Europe and other places.

William Daley greets Zhu Rongji before talks with the Chinese leader yesterday Reuters

**DALEY MISSION** CONTRACTS FOR TELECOMS, AEROSPACE, POWER AND ENERGY COULD HELP EASE TENSIONS OVER TRADE SURPLUS

# String of trade deals awarded to US companies

By James Kynge in Beijing

China announced deals for US companies in telecoms, aerospace, power and energy sectors yesterday in a move that could help reduce tension over Beijing's large trade surplus before Zhu Rongji, China's premier, visits Washington next month.

Enron International China Pipeline, a subsidiary of Enron Corp, the Texas-based company, signed a memorandum of understanding to take a 45 per cent stake in a $400m natural gas pipeline it would help build.

The 750km pipeline would be built in co-operation with China National Petroleum Corporation, a state oil and gas company. Construction could start later this year.

US telecoms companies received a boost when William Daley, the US commerce secretary, confirmed that China was preparing to adopt US-developed CDMA mobile telephone technology.

Chinese officials have said that Unicom, the second Chinese state carrier, would start rolling out a nationwide CDMA network later this year and service 40m customers by 2003 – possibly meaning sales of more than $10bn in coming years.

Mr Daley said Mr Zhu "did indicate the use of CDMA would be approved and is something he believes would be good for the telecoms sector in China". The main US corporate winners from the permission are expected to be Motorola, Lucent Technologies and Qualcomm.

Chinese airlines signed an agreement to buy 10 Boeing 737s worth $400m in a deal that was first mentioned during President Bill Clinton's visit to China last year. The aircraft, scheduled for delivery after 2001, were destined for Air China, Xiamen Airlines, Hainan Airlines and Wuhan Airlines.

The Boeing deal goes some way toward allaying concerns that overcapacity in China's airline industry would lead to a sharp fall in orders in the next few years.

In the power sector, Sithe China Holdings, a US majority owned power company, gained final approval to build and own a $454m 600MW plant in Chibi city, Hubei province. The deal could mean more than $23m for US contractors in the near term, with a Westinghouse joint venture in Shanghai providing turbines for the plant.

The plant is expected to sell all its power to the Hubei Provincial Electric Power company under a 20-year contract.

The deals could go some way to subduing US criticism of China for its large trade surplus, which last year grew to $57bn. They may also smooth the path of Mr Zhu, who faces criticism over China's human rights record, allegations of Chinese spying on US nuclear installations and because of US perceptions that Beijing has erected some new barriers to foreign investment over the past year.

# Deal on third generation mobile phone standards boosts European prospects

**Alan Cane** on the significance of the pact between Ericsson and Qualcomm

The accord announced last week between Qualcomm, the small US manufacturer, and Ericsson of Sweden, one of the telecoms industry giants, was designed to cut a Gordian knot of litigation which had been hindering progress towards the next generation of mobile phones.

The two companies agreed to abandon lawsuits against each other, to cross-license their respective patent portfolios and "jointly support a single world CDMA standard with three optional modes for the next generation of wireless communications".

CDMA is an advanced wireless technology developed by Qualcomm, which has been trying to establish it as the North American standard. The row had centred on ownership of CDMA patents central to the development of third generation technology.

Ericsson, moreover, undertook to buy Qualcomm's wireless equipment manufacturing plant in San Diego, California and Boulder, Colorado.

The GSM Association, representing manufacturers and operators of the world's most popular current generation of mobile systems, hailed it as a breakthrough, adding that: "The industry could now look forward to focusing on the real technology issues behind the development and evolution of third generation wireless standards."

Some argue that the agreement represents a victory for the European GSM lobby over a fragmented and uncoordinated US mobile industry. John Allen of the investment bank ABC Associates says: "This was a battle between David and Goliath in which David got whacked."

As a consequence, he believes, the prospects for the European standard GSM in the US market for digital wireless services have been greatly enhanced. The agreement will also boost hopes that Symbian, a joint venture between Ericsson, Nokia of Finland, Motorola of the US and Psion of the UK will prevail over Microsoft in providing the operating system for wireless communications devices.

The row between Qualcomm and Ericsson was the most visible sign of the turmoil enveloping the mobile communications industry as it moves towards the third generation of mobile phones capable of sending and receiving moving video images, surfing the Internet and other advanced services.

Moves to establish a global standard for such phones have been portrayed as a battle between European manufacturers such as Ericsson and Nokia, keen to repeat their success with GSM, now the mobile standard of choice in 118 countries with 324 networks serving more than 150m subscribers, and US manufacturers who fear they will be at a disadvantage if Europe is allowed to dictate the standard for services seen as the future of the mobile industry.

The issue generated sufficient heat for Madeleine Albright, US secretary of state, to write to former European industry commissioner Martin Bangemann pleading for fair play for US manufacturers.

Third generation services, however, remain several years away: there are, in any case doubts about whether there will be enough subscriber demand for the new services to justify the huge investment required.

**'This was a battle between David and Goliath in which David got whacked'**

The battle today is for networks serving more than 150m subscribers. It does not, however, dominate the US market, where first generation phones still hold the lion's share of the market. According to the EMC World Cellular Database, at the end of 1998, more than 46m Americans had analogue phones compared with 9m using a digital technology called TDMA, some 6.6m using the digital technology pioneered by Qualcomm, CDMA, and only some 2.65m using GSM.

The development of mobile telephony in the US has been hindered by regulations which force the party being called to pay for the cost of a call, a measure devised by regional operators to prevent their local services being cannibalised. The US is therefore in the early stages of the move to second generation mobile services. It is, in fact, the last untapped market in a developed country available to GSM manufacturers and operators.

GSM is a mature and feature-rich technology compared with CDMA or TDMA. And it will be around for a long time. Technical developments are making it possible for GSM to provide many of the services associated with third generation systems. The question raised by last week's concord, therefore, is whether Ericsson and others can use the foothold presented by the Qualcomm agreement to foster the use of GSM in the US. If it can, third generation systems will inevitably have a GSM flavour.

## INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1990=100

**UNITED STATES**

| | Exports | Visible trade balance | Current account balance | Ecu exch rate | Effective exch. rate |
|---|---|---|---|---|---|
| 1988 | 272.5 | -100.2 | -108.4 | 1.1833 | 100.5 |
| 1989 | 330.2 | -99.3 | -94.6 | 1.1017 | 104.9 |
| 1990 | 309.0 | -79.3 | -72.1 | 1.2746 | 100.0 |
| 1991 | 340.5 | -53.5 | -4.6 | 1.2391 | 98.5 |
| 1992 | 345.9 | -65.2 | -43.5 | 1.2957 | 96.5 |
| 1993 | 397.3 | -98.7 | -73.6 | 1.1705 | 89.5 |
| 1994 | 432.3 | -127.0 | -104.4 | 1.1857 | 97.6 |
| 1995 | 452.3 | -122.8 | -89.2 | 1.2928 | 91.8 |
| 1996 | 499.0 | -135.9 | -107.7 | 1.2526 | 96.6 |
| 1997 | 609.4 | -160.5 | -137.2 | 1.1309 | 104.4 |
| 1998 | 607.8 | -205.8 | -207.9 | 1.1229 | 109.5 |
| 1st qtr.1998 | 159.6 | -48.2 | -43.2 | 1.0874 | 109.1 |
| 2nd qtr.1998 | 151.4 | -55.8 | -51.7 | 1.1020 | 110.8 |
| 3rd qtr.1998 | 148.8 | -53.7 | -58.7 | 1.1196 | 112.6 |
| 4th qtr.1998 | 148.4 | -48.3 | -53.9 | 1.1824 | 105.6 |
| March 1998 | 53.4 | -17.7 | n.a. | 1.0857 | 109.1 |
| April | 51.1 | -18.7 | n.a. | 1.0937 | 109.7 |
| May | 49.9 | -19.5 | n.a. | 1.1102 | 110.2 |
| June | 50.4 | -17.6 | n.a. | 1.1022 | 112.3 |
| July | 49.8 | -18.0 | n.a. | 1.0992 | 113.0 |
| August | 49.9 | -18.9 | n.a. | 1.1028 | 114.8 |
| September | 49.1 | -16.8 | n.a. | 1.1569 | 109.9 |
| October | 49.4 | -15.4 | n.a. | 1.2021 | 105.4 |
| November | 50.2 | -16.7 | n.a. | 1.1690 | 106.3 |
| December | 48.7 | -16.2 | n.a. | 1.1762 | 105.2 |
| January 1999 | 48.1 | -19.2 | n.a. | 1.1597 | 104.1 |
| February | | | | 1.1199 | 106.0 |

**JAPAN**

| | Exports | Visible trade balance | Current account balance | Ecu exchange rate | Effective exchange rate |
|---|---|---|---|---|---|
| 1988 | 220.3 | 78.5 | 67.6 | 151.51 | 115.9 |
| 1989 | 246.6 | 74.7 | 60.1 | 151.87 | 110.8 |
| 1990 | 221.3 | 56.5 | 38.2 | 183.94 | 99.9 |
| 1991 | 249.4 | 79.2 | 59.2 | 166.44 | 108.4 |
| 1992 | 256.4 | 93.2 | 83.5 | 164.05 | 113.6 |
| 1993 | 300.1 | 118.2 | 110.1 | 130.31 | 136.5 |
| 1994 | 324.9 | 121.1 | 109.9 | 120.99 | 147.0 |
| 1995 | 331.6 | 101.2 | 86.1 | 121.43 | 154.4 |
| 1996 | 320.1 | 66.6 | 53.1 | 136.24 | 134.0 |
| 1997 | 361.8 | 89.6 | 83.8 | 136.84 | 126.1 |
| 1998 | 333.6 | 109.7 | 108.4 | 146.89 | 118.2 |
| 1st qtr.1998 | 90.4 | 28.9 | 27.7 | 139.32 | 121.2 |
| 2nd qtr.1998 | 83.7 | 28.5 | 25.8 | 149.56 | 114.3 |
| 3rd qtr.1998 | 79.2 | 25.2 | 26.5 | 156.64 | 110.5 |
| 4th qtr.1998 | 80.9 | 27.2 | 28.6 | 141.24 | 127.0 |
| March 1998 | 29.5 | 9.3 | 8.2 | 140.17 | 120.5 |
| April | 28.6 | 9.5 | 6.5 | 144.28 | 117.8 |
| May | 28.0 | 10.9 | 10.2 | 149.80 | 114.5 |
| June | 27.1 | 8.2 | 9.0 | 154.60 | 110.6 |
| July | 27.0 | 8.2 | 7.9 | 154.66 | 110.5 |
| August | 26.0 | 8.6 | 9.1 | 159.70 | 107.5 |
| September | 26.2 | 8.4 | 9.4 | 155.56 | 113.4 |
| October | 27.1 | 9.4 | 9.6 | 145.38 | 124.7 |
| November | 26.7 | 8.8 | 9.9 | 140.66 | 126.3 |
| December | 27.0 | 9.0 | 9.1 | 137.66 | 129.7 |
| January 1999 | 29.5 | 11.7 | 10.5 | 131.41 | 134.2 |
| February | | | | 130.51 | 132.1 |

**GERMANY**

| | Exports | Visible trade balance | Current account balance | Ecu exchange rate | Effective exchange rate |
|---|---|---|---|---|---|
| 1988 | 289.0 | 65.1 | 43.0 | 2.0739 | 96.6 |
| 1989 | 327.9 | 68.8 | 54.7 | 2.0681 | 95.9 |
| 1990 | 340.6 | 53.9 | 40.4 | 2.0537 | 100.0 |
| 1991 | 343.0 | 11.7 | -15.2 | 2.0480 | 98.2 |
| 1992 | 341.5 | 17.3 | -15.3 | 2.0187 | 102.1 |
| 1993 | 321.7 | 30.1 | -11.8 | 1.9337 | 106.1 |
| 1994 | 353.7 | 36.4 | -16.8 | 1.9198 | 106.4 |
| 1995 | 382.6 | 43.5 | -16.6 | 1.8509 | 111.9 |
| 1996 | 403.4 | 50.3 | -10.6 | 1.8844 | 108.9 |
| 1997 | 455.0 | 59.7 | -3.6 | 1.9584 | 103.9 |
| 1998 | 483.8 | 65.2 | -6.1 | 1.9728 | 104.1 |
| 1st qtr.1998 | 121.2 | 15.9 | -4.5 | 1.9777 | 102.7 |
| 2nd qtr.1998 | 123.4 | 17.3 | 2.7 | 1.9756 | 103.7 |
| 3rd qtr.1998 | 121.5 | 16.8 | -4.3 | 1.9716 | 104.7 |
| 4th qtr.1998 | 117.7 | 15.3 | -1.9 | 1.9662 | 105.4 |
| March 1998 | 40.1 | 6.3 | 3.5 | 1.9835 | 102.5 |
| April | 42.1 | 5.7 | 0.8 | 1.9816 | 103.0 |
| May | 40.3 | 6.9 | 0.4 | 1.9697 | 104.1 |
| June | 41.0 | 4.7 | 1.5 | 1.9754 | 104.1 |
| July | 41.5 | 5.9 | -0.6 | 1.9758 | 104.2 |
| August | 40.3 | 5.0 | -2.4 | 1.9724 | 104.7 |
| September | 39.7 | 5.8 | -1.3 | 1.9868 | 105.4 |
| October | 39.8 | 5.5 | -2.5 | 1.9699 | 105.8 |
| November | 39.9 | 6.7 | 1.1 | 1.9660 | 105.2 |
| December | 38.0 | 3.1 | -0.5 | 1.9627 | 105.1 |
| January 1999 | 6.24 | 6.2 | | 1.9559 | 104.6 |
| February | | | | 1.9558 | 103.7 |

**FRANCE**

| | Exports | Visible trade balance | Current account balance | Ecu exchange rate | Effective exch. rate |
|---|---|---|---|---|---|
| 1988 | 149.5 | -8.3 | -3.6 | 7.0354 | 96.9 |
| 1989 | 171.3 | -10.6 | -3.8 | 7.0169 | 96.0 |
| 1990 | 176.0 | -12.1 | -7.6 | 6.9202 | 100.0 |
| 1991 | 182.2 | -9.9 | -5.2 | 6.9643 | 98.3 |
| 1992 | 186.6 | -0.3 | 3.0 | 6.8420 | 101.5 |
| 1993 | 177.9 | 8.3 | 8.1 | 6.6281 | 105.0 |
| 1994 | 196.4 | 6.9 | 5.4 | 6.5659 | 106.1 |
| 1995 | 214.7 | 8.2 | 8.3 | 6.4460 | 109.2 |
| 1996 | 223.9 | 11.3 | 16.0 | 6.4068 | 109.1 |
| 1997 | 257.4 | 25.0 | 34.8 | 6.5925 | 105.6 |
| 1998 | 272.9 | 23.0 | 35.8 | 6.6137 | 106.1 |
| 1st qtr.1998 | 68.0 | 5.4 | 7.9 | 6.6273 | 105.0 |
| 2nd qtr.1998 | 68.1 | 5.2 | 6.6 | 6.6238 | 105.7 |
| 3rd qtr.1998 | 69.0 | 6.6 | 9.3 | 6.6105 | 106.5 |
| 4th qtr.1998 | 67.7 | 5.7 | 10.0 | 6.5931 | 107.3 |
| March 1998 | 22.7 | 1.7 | 1.7 | 6.6493 | 104.8 |
| April | 22.8 | 2.0 | 3.4 | 6.6428 | 105.1 |
| May | 22.5 | 1.5 | 3.4 | 6.6051 | 106.1 |
| June | 22.8 | 1.7 | 1.7 | 6.6235 | 105.9 |
| July | 22.9 | 2.0 | 4.2 | 6.6243 | 106.0 |
| August | 22.6 | 1.7 | 2.1 | 6.6123 | 106.4 |
| September | 23.6 | 2.9 | 3.0 | 6.5949 | 107.1 |
| October | 22.2 | 1.4 | 3.7 | 6.5949 | 107.6 |
| November | 23.0 | 2.0 | 3.4 | 6.5923 | 107.1 |
| December | 22.5 | 2.3 | 2.9 | 6.5819 | 107.1 |
| January 1999 | 21.5 | 1.4 | | 6.5596 | 106.7 |
| February | | | | 6.5597 | 106.0 |

**ITALY**

| | Exports | Visible trade balance | Current account balance | Ecu exchange rate | Effective exchange rate |
|---|---|---|---|---|---|
| 1988 | 85.9 | -7.0 | -4.3 | 1536.8 | 97.6 |
| 1989 | 99.6 | -8.8 | -8.4 | 1509.2 | 98.5 |
| 1990 | 105.1 | -7.3 | -10.1 | 1523.2 | 100.0 |
| 1991 | 108.3 | -8.3 | -15.2 | 1531.3 | 98.6 |
| 1992 | 113.3 | -6.5 | -18.6 | 1591.5 | 95.5 |
| 1993 | 137.5 | 17.2 | 8.3 | 1836.7 | 80.4 |
| 1994 | 159.1 | 18.5 | 11.8 | 1908.6 | 78.9 |
| 1995 | 196.9 | 23.5 | 22.6 | 2106.4 | 69.3 |
| 1996 | 200.8 | 34.9 | 32.7 | 1932.1 | 75.7 |
| 1997 | 209.2 | 27.4 | 32.5 | 1924.0 | 76.3 |
| 1998 | 215.6 | 24.5 | 23.3 | 1947.3 | 75.9 |
| 1st qtr.1998 | 52.8 | 3.2 | 2.4 | 1948.6 | 75.3 |
| 2nd qtr.1998 | 57.3 | 7.0 | 7.1 | 1948.7 | 75.7 |
| 3rd qtr.1998 | 52.6 | 8.9 | 3.7 | 1945.8 | 76.3 |
| 4th qtr.1998 | 53.0 | 5.4 | 4.2 | 1945.9 | 76.5 |
| March 1998 | 20.6 | 2.3 | 3.0 | 1953.3 | 75.2 |
| April | 18.8 | 1.5 | 0.7 | 1957.6 | 75.2 |
| May | 18.8 | 2.8 | 2.7 | 1942.5 | 76.0 |
| June | 19.7 | 2.6 | 3.7 | 1946.2 | 76.0 |
| July | 21.7 | 5.4 | 6.4 | 1948.1 | 76.0 |
| August | 12.9 | 2.7 | 2.4 | 1946.0 | 76.2 |
| September | 17.9 | 0.7 | 0.9 | 1943.2 | 76.6 |
| October | 18.9 | 2.5 | 1.6 | 1948.8 | 76.8 |
| November | 17.4 | 1.4 | 0.8 | 1946.6 | 76.4 |
| December | 16.5 | 1.5 | 1.6 | 1943.5 | 76.4 |
| January 1999 | 13.3 | 0.2 | | 1936.3 | 76.1 |
| February | | | | 1936.3 | 75.6 |

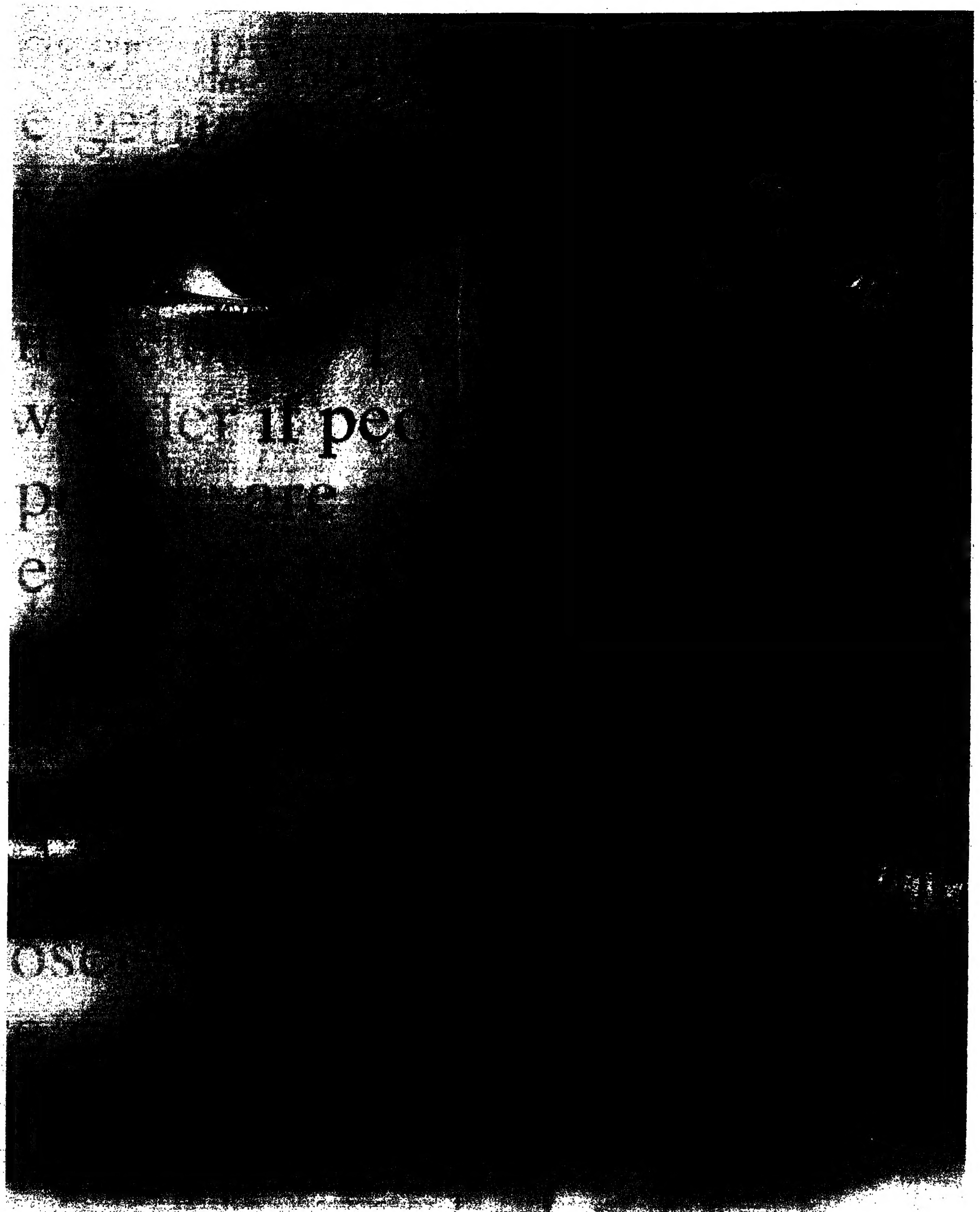
**UNITED KINGDOM**

| | Exports | Visible trade balance | Current account balance | Ecu exchange rate | Effective exchange rate |
|---|---|---|---|---|---|
| 1988 | 121.5 | -32.4 | -26.4 | 0.6643 | 105.4 |
| 1989 | 137.6 | -36.7 | -34.9 | 0.6728 | 102.3 |
| 1990 | 143.1 | -26.2 | -27.3 | 0.7150 | 100.0 |
| 1991 | 148.4 | -14.6 | -12.0 | 0.7002 | 100.7 |
| 1992 | 146.6 | -17.7 | -13.7 | 0.7359 | 96.9 |
| 1993 | 156.9 | -17.1 | -13.6 | 0.7780 | 89.0 |
| 1994 | 174.8 | -14.3 | -1.3 | 0.7736 | 89.2 |
| 1995 | 187.7 | -14.3 | -4.6 | 0.8190 | 84.8 |
| 1996 | 208.6 | -16.3 | -0.7 | 0.8026 | 88.3 |
| 1997 | 248.8 | -17.2 | 9.1 | 0.6908 | 100.5 |
| 1998 | 241.6 | -30.4 | 2.2 | 0.6775 | 103.9 |
| 1st qtr.1998 | 62.7 | -6.4 | -1.0 | 0.6606 | 105.4 |
| 2nd qtr.1998 | 62.1 | -7.2 | -1.8 | 0.6665 | 105.4 |
| 3rd qtr.1998 | 60.7 | -7.8 | 3.5 | 0.6774 | 104.4 |
| 4th qtr.1998 | 56.4 | -8.9 | 1.4 | 0.7055 | 100.6 |
| March 1998 | 21.2 | -2.3 | n.a. | 0.6532 | 106.8 |
| April | 21.1 | -1.9 | n.a. | 0.6536 | 107.1 |
| May | 20.1 | -2.9 | n.a. | 0.6783 | 103.4 |
| June | 20.9 | -2.4 | n.a. | 0.6783 | 105.4 |
| July | 20.8 | -2.0 | n.a. | 0.6689 | 105.3 |
| August | 20.5 | -1.9 | n.a. | 0.6757 | 104.6 |
| September | 19.4 | -3.8 | n.a. | 0.6877 | 103.3 |
| October | 18.8 | -2.5 | n.a. | 0.7091 | 100.7 |
| November | 18.8 | -3.3 | n.a. | 0.7034 | 100.6 |
| December | 18.8 | -3.2 | | 0.7041 | 100.4 |
| January 1999 | 17.8 | -4.0 | | 0.7024 | 99.6 |
| February | | | | 0.6880 | 100.8 |

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

CIAL TIMES TUESDAY MARCH

# Construction machine sales hit record



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# Pinochet legal challenges put on hold

By John Mason and Andrew Parker in London

The High Court in London ruled yesterday that fresh legal challenges aimed at freeing General Augusto Pinochet must wait until Jack Straw, the British home secretary, has decided whether to renew government approval of Spain's extradition request.

Three judges gave the go-ahead to lawyers for Gen Pinochet, the former Chilean dictator under arrest in the UK, to challenge the government's initial approval of the request and also to launch "habeas corpus" proceedings to free the former leader and allow him to return to Chile.

However, they adjourned both hearings until April 15 at the earliest to give Mr Straw sufficient time to reconsider his approval of the request from Spanish prosecutors.

The moves follow last week's ruling by the House of Lords, the UK's most senior court, that Gen Pinochet was immune from prosecution for crimes committed before September 1988, when the International Torture Convention was ratified by the UK, but not for those committed after then.

Spain is seeking to try Gen Pinochet on charges of torture and conspiracy to torture. Although only 10 per cent of these relate to the post 1988 period, Baltasar Garzon, the Spanish magistrate bringing the prosecution, has indicated his determination to press on with the effort. He has since filed details of other crimes allegedly committed after 1988 to the UK government.

The law lords also directed Mr Straw to reconsider his granting of the "authority to proceed" for the extradition following its ruling.

Lawyers for Gen Pinochet told the High Court that it was wrong for further proceedings to be delayed and the former dictator left in "custodial limbo" while Mr Straw made up his mind.

Giving judgment, Lord Justice Laws said it would not be right for the High Court to act "in such a way as might allow Gen Pinochet to be discharged and leave the country without the secretary of state (Mr Straw) having the opportunity to reconsider the merits of this matter".

Mr Straw has received legal advice that he cannot quash his decision, made in December, which allowed magistrates to begin considering the Spanish extradition request. Whitehall officials expect Mr Straw to stand by the decision, although he may have to give a new "authority to proceed" that takes account of last week's ruling by the law lords.

**PARAGUAY CRISIS** PRESIDENT'S RESIGNATION GIVES FLEDGLING DEMOCRACY VITAL BREATHING SPACE AFTER BITTER CONFRONTATIONS

# Misplaced loyalty ends Cubas' rule

If Paraguay's ex-president Raúl Cubas Grau had one overriding political fault, it was not choosing his friends more carefully. Mr Cubas' unbending loyalty to one man, former general and would-be coup leader Lino Oviedo, plunged his government into a bitter confrontation with both the legislature and judiciary and paralysed his ambitious political programme.

Mr Cubas' resignation on Sunday night has at least partly defused these tensions and created a valuable breathing space for the country's fledgling democracy.

But incoming President Luis Gonzalez Macchi, former president of Congress, assumes control of a country with a shrinking economy and a total lack of consensus over the democratic ground rules. Paraguay also remains traumatised by the recent outbreak of political violence.

Mr Gonzalez Macchi himself sparked controversy in his acceptance speech on Sunday night by declaring he would serve out the remainder of Mr Cubas' term, until 2003. Many constitutional experts, and the opposition, maintain the new president is obliged to call fresh presidential elections within six months. A refusal to do so risks sparking fresh turmoil.

The events of the past week have also stripped the ruling Colorado party of its two most powerful strongmen. Vice-president Luis Maria Argaña, assassinated last Tuesday, controlled the party's principal faction with an iron hand.

Luis González Macchi, with his wife Susana Galli, after taking over as president on Sunday night AP

Mr Oviedo – who was arrested after he fled to Argentina before his ally's fall – also had a fervent following both within the party and the country. The party has retained power for over half a century and its structures are often indistinguishable from those of the state.

Mr Oviedo and Mr Argaña had been engaged in a brutal struggle for supremacy in the party, and large sections of the local media have not hesitated in branding Mr Oviedo as the vice-president's murderer. However, independent local analysts caution that there was as yet no clear evidence as to who instigated the killing.

Mr González Macchi, previously shadow of his mentor Mr Argaña, has a narrow window of opportunity to impose his leadership on the feuding party. He also appears willing to co-opt some opposition figures into his government in efforts to ensure governability and begin tackling some of the country's urgent problems.

The economy at best stagnated last year and gross domestic product per capita is falling. Polls last month showed only 10 per cent of the population thought they lived better now than under the dictatorship of General Alfredo Stroessner, overthrown in 1989.

Despite the formidable problems, there was jubilation in the capital Asuncion at the change of president and widespread relief in the region that the country's democratic structures had held. During the political turmoil both before and after last May's elections, the armed forces scrupulously declined to intervene and remained subordinate to the political authority.

Mr Cubas' resignation, which headed off a Senate vote to strip him of office, was negotiated under international tutelage. Paraguay's partners in the Mercosur customs union – Brazil, Argentina and Uruguay – along with European Union ambassadors, the Vatican and the US, exercised powerful behind-the-scenes influence to keep Paraguay on the democratic track.

"Paraguay is still in a political transition," said a political analyst, Carlos Martini. "Its democracy is so weak institutionally that its continuance is entirely dependent on outside pressures." Popular pressure, in the form of mass demonstrations by students and farm workers backing the Congress against Mr Cubas also played a constructive role in securing a largely peaceful transition.

Paraguayans took to the streets in their thousands in the capital on Sunday night, celebrating into yesterday morning under the tropical rain. Yet many of those hailing Mr Cubas' resignation probably celebrated his landslide election victory last May just as fervently.

Where did it all go wrong for Mr Cubas, a mild mannered wealthy businessman seemingly out of place in a land of fire-and-brimstone political orators? Mr Cubas was originally his party's vice presidential candidate, with Mr Oviedo heading the ticket. It was only the jailing of Mr Oviedo for 10 years for leading a 1996 coup attempt that projected Mr Cubas, much to his own surprise, into the presidency.

In the election campaign Mr Cubas made no secret of his intention to release Mr Oviedo. But his freeing of Mr Oviedo by decree only days after assuming office led to conflict with the Supreme Court, which insisted Mr Oviedo serve out his term, and with the legislature, which immediately threatened impeachment. A better strategy would have been to negotiate a reduced term for Mr Oviedo with the opposition, said Mr Martini.

Mr Cubas appears to have secured a deal giving him immunity for acts committed during his presidency, and may even allow him to become a lifetime senator.

However, by fleeing to Argentina Mr Oviedo appears to have burnt his bridges. "The coward Oviedo has fled like a rat. Yes like a rat," said one straight-faced TV news presenter yesterday morning. Reprisals against Mr Oviedo's supporters, or some form of desperate counter strike cannot be ruled out, further complicating the chances for the country's democracy.

Editorial comment, Page 17

# Navigator 'agrees to make guilty plea'

A Marine navigator whose jet cut a ski gondola cable in Italy last year has agreed to plead guilty to obstruction and conspiracy charges, a Marine spokesman said yesterday. AP reports from Camp Lejeune, North Carolina.

Captain Joseph Schweitzer was expected to enter the plea at a hearing yesterday afternoon at Camp Lejeune, the spokesman with Marine Corps Forces Atlantic at Norfolk, Virginia, said.

Capt. Schweitzer was accused of destroying a videotape that he shot before his radar-jamming EA-6B Prowler hit the gondola cable during a low-level training flight in February 1998. All 20 people inside the gondola were killed.

The court-martial of Capt. Schweitzer had been due to begin late last week with jury selection. But discussions between government lawyers and Capt. Schweitzer's defence team delayed it.

A military jury at Camp Lejeune acquitted the jet's pilot, Captain Richard Ashby, of manslaughter and other charges earlier this month.

Manslaughter counts against Capt. Schweitzer were dismissed after the acquittal. But both faced the obstruction of justice and conspiracy charges because of the videotape's disappearance. Each charge carries a maximum five-year sentence.

Two crew members were charged in the accident but those charges were dismissed for lack of evidence.

# US house sales may have peaked

By Gautam Malkani in Washington

New single-family home sales dropped 2 per cent drop in February, suggesting the US housing market has peaked.

Nevertheless, low unemployment, strong income gains and high stock prices helped keep sales healthy at a seasonally-adjusted annual rate of 881,000 according to figures released by the US Commerce Department and Department of Housing and Urban Development yesterday.

Mortgage rates have increased from about 6.75 per cent earlier this year to 7 per cent and mortgage applications are running below the fourth-quarter level, suggesting sales will slow further in coming months.

"The data on housing starts will probably come off and if mortgage rates remain stable then housing activity will stablise," said Bruce Steinberg, chief economist with Merril Lynch.

The median price paid for new single-family homes reached an all-time high in February, at $158,000. However, analysts said the figure – up 1.3 per cent from a year ago – would not influence the Federal Reserve's decision on interest rates when it meets today.

While the jump in house prices reflected continued market strength, Mr Steinberg said it was also caused by "a shift away from the less expensive regions in the south to the more expensive regions in the North".

هكذا منذ الأزل





*On the occasion of the 38th anniversary of the accession to the throne of His Majesty King Hassan II, the National U.S. Arab Chamber of Commerce takes pride in the bipartisan demonstration of support by undersigned US members of Congress and endorsed by J. Dennis Hastert, Speaker of the House of Representatives, in recognition of the enduring friendship and economic cooperation which binds the United States of America with the Kingdom of Morocco, the first country to recognize American independence.*

# Congress of the United States

## Washington, DC 20515

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- The continued promotion of goodwill and understanding between our two nations through increased contact between respective parliaments with the view to heighten the strides that our two nations have made in unison aimed at the promotion of regional peace and stability on the foundation of tolerance and human dignity for all.

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**NORTHERN IRELAND** LEADERS ARRIVE FOR 11TH HOUR MEETINGS AMID SPECULATION OVER REPUBLICANS' EASTER MESSAGE

# Premiers hope to rescue peace deal today

By John Murray Brown in Belfast

Tony Blair, the UK prime minister, and Bertie Ahern, his Irish counterpart, flew to Northern Ireland last night in an effort to salvage the peace agreement signed almost exactly a year ago. They arrived amid speculation that the Irish Republican Army may issue a statement saying its war is over.

The two leaders are due to hold a series of meetings with Ulster's main parties at Stormont, the Northern Ireland assembly building, today in an effort to break the deadlock over arms decommissioning to allow the new regional government to be set up.

The IRA traditionally issues a statement to mark the 1916 Easter rebellion against British rule and security officials say republicans are likely to use the opportunity to soften its line on arms.

Mr Blair's office indicated that tomorrow was the "de facto deadline" if agreement is to be reached before parties adjourn for the Easter break. The Ulster Unionists insist the IRA start to disarm before members of Sinn Féin, its political wing, can take their seats in cabinet.

Mr Blair's arrival in advance of the first anniversary of the agreement is raising hopes that a compromise formula can be found. The UK government is understood to be considering moves to withdraw troops from Northern Ireland as part of a comprehensive package of confidence-building measures.

However, Mo Mowlam, the chief UK minister for Northern Ireland, appeared keen to play down expectations of a breakthrough. "It's always useful to have external forces especially when we've been talking among ourselves for as long as we have. But there's no miracle, there's no magic, there's nothing they bring with them that changes the nature of the question we have to answer."

David Trimble, the Ulster Unionist party leader and the first minister in the new administration, spent three hours in talks with Gerry Adams, president of Sinn Féin. Mitchel McLaughlin, the Sinn Féin chairman, said the exchanges were "much more constructive than on previous occasions". Michael McGimpsey, an Ulster Unionist negotiator, said an IRA statement would be "helpful".

# Thoughts turn to possible collapse of the year-old peace deal

Shadow of unresolved problems falls over tense debate, says **John Murray Brown**

A sense of gloom hung over the Northern Ireland talks yesterday as parties switched their thoughts to the possible collapse of the peace agreement reached a year ago this week. What happens next is far from clear.

Mo Mowlam, chief Northern Ireland minister in the UK government, has said she will trigger the so-called d'Hondt procedure to set up the region's 10-member power sharing executive either tomorrow or Thursday. This will give time for Tony Blair, the UK prime minister, and Bertie Ahern, his Irish counterpart – who arrived separately last night – to try to find a compromise formula on the arms issue.

With agreement, the process would be relatively straightforward. The system, named after a 19th century Belgian, uses the composition of the assembly to determine how many seats each party takes in the executive. It also determines in what order the parties choose the ministries.

The system is already used in the European parliament for allocating seats on committees and in a number of European countries for allocating seats in multi-seat constituency elections. If all Northern Ireland parties take up their seats on the new executive, it would comprise three Ulster Unionists, three representatives of the moderate nationalist Social Democratic and Labour party and two each for the Democratic Unionists and Sinn Féin, political wing of the Irish Republican Army.

If on the other hand, d'Hondt is triggered but the unionists refuse to take part, this would produce the result that the SDLP had five seats, Sinn Féin four and the non-sectarian Alliance party one. In that event, Ms Mowlam has made it clear she would not be able to transfer powers from London. The peace process would thus be brought to an abrupt halt.

At this stage, the two governments refuse to rule out a last minute deal. There was speculation yesterday that the IRA may seek to turn the spotlight on the unionists by taking a more conciliatory line in its annual Easter statement.

Government officials meanwhile are already sounding out the parties to establish just how the accord might be kept alive in the event of continued stalemate this week – perhaps through some sort of review mechanism.

The worst possibility is that David Trimble, the Ulster Unionist leader, would resign as the region's first minister before d'Hondt is run. He has repeatedly promised his supporters not to go into government with Sinn Féin while the IRA is still retaining its arms, and may wish to quit before being pushed by the party.

His resignation would automatically force Seamus Mallon, the nationalist deputy first minister to step down as well, since the two offices are approved as a pair.

But more likely is that the UUP will seek assembly backing to have Sinn Féin expelled before names are put forward for the executive.

The motion is unlikely to be carried, as it would cross community support from the moderate nationalist SDLP. But the delay could well drag proceedings past the Easter deadline. Without an executive in place, the UK parliament will also have to adjourn on Thursday without having passed the legislation providing the date for the transfer of powers to Northern Ireland.

David Trimble: one fear is that he will resign as first minister



# Dispute over tax delays sell-off

By Rosemary Bennett, Political Correspondent

The government bill to privatise the Commonwealth Development Corporation has been delayed by wrangling over tax treatment for the new company. Government officials have not agreed plans for the special tax treatment necessary to make the CDC, which offers only modest annual returns, attractive to institutional investors.

Allowing the CDC, which invests chiefly in infrastructure and agribusiness projects in developing countries, to raise funds offshore was abandoned as politically unacceptable. Creating a new class of taxation for all companies investing in projects in developing countries was also abandoned as too costly and complex.

Instead, the government is drawing up special rules to enable the CDC to trade as if it were raising funds tax free. News that the bill had been held up again came just days after the CDC reported a £42m ($68.5m) loss for 1998, its first annual deficit since 1954. The corporation blamed emerging market turbulence for the loss and said it had to set aside £155m for losses in Asia.

"This is the government's first privatisation and it's a disaster," said the opposition Conservative party. "The solution in the tax problem is to allow the funds to go offshore. That's the real world of finance today. This dithering will not inspire confidence."

The government knows it must attract institutional investors to the deal since it is likely to sell around 60 per cent of the CDC's £1.6bn of assets, too much for ethical investors to swallow.

## NEWS DIGEST

**PANEUROPEAN LEGAL SERVICES**

### Firm spurns merger route to move into Netherlands

Freshfields, the UK law firm, yesterday announced it was expanding into the Netherlands in a move that may have profound implications for Dutch legal services. The firm has hired four senior Dutch lawyers to head a new Amsterdam office, with a number of others expected to follow soon. Three of the four come from Stibbe Simont, one of Amsterdam's top law firms.

Freshfields has adopted an aggressive "cherry-picking" strategy rather than seek a merger with a Dutch law firm. The strategy could encourage other large UK or US firms to follow the same route, so undermining the plans of some Dutch firms to seek mergers to develop a pan-European practice. The lawyers recruited from Stibbe are Peter Hendrick, former head of the firm's intellectual property department, Charles Langeris, former head of tax at Stibbe's, and Albert Jan van den Berg, an international arbitration specialist.

The fourth lawyer is Steven Perrick, until now a corporate partner with de Brauw Blackstone Westbroek, part of Linklaters and Alliance. Alan Peck, chief executive of Freshfields, said: "We have been looking at opening an office in the Netherlands for some time in order to consolidate our European network and enhance our international tax capacity. We are delighted that we have been able to attract such a high quality Dutch team to launch the office." Peter Roorda, of Stibbe's executive committee in Amsterdam, agreed the Freshfields' move had been aggressive, but he denied that the firm would be greatly damaged by the defections. **John Mason, London**

**GROWTH PROJECTIONS**

### Call for fewer rural homes

Countryside campaigners called last night for fewer new homes to be built in rural England after the government issued projections suggesting an unexpected slowdown in household growth. The government said 3.8m households were projected to be created between 1996 and 2021 compared with 4.4m projected for the previous 25-year period ending in 2016. It revised down the figure for the earlier period to 4.1m.

Officials attributed the change to an increase in the number of couples cohabiting, compared with previous assumptions, leading to slower growth in single-person households. The 3.8m represents a one-fifth increase in households over 25 years. **Brian Groom, London**

**SOCCER GAMBLING**

### Internet service to be launched

William Hill is set to become the first big UK-based bookmaker to launch an internet-based soccer betting service targeted at gamblers in the Far East, Europe and Asia.

The soccer site will be operated from the Isle of Man, which is licensed by the UK for betting but has its own tax regime.

Tax laws mean that UK residents cannot currently place bets on the site, but William Hill, the UK's second largest bookmaker, plans to develop a version of the site for UK residents that will be rolled out by August and will also feature internet-based horse race gambling. Initially, the Isle of Man site will enable customers to bet on more than 20 European soccer leagues. By the end of the year, the site will be available in four languages including English and Mandarin Chinese, to cater for William Hill's established client base in the Far East. **Paul Taylor, London**

**CLIMATE-CHANGE TAX**

### Energy users warn government

Britain's big energy users yesterday warned the government that the new climate-change tax could cause serious harm to their business. Representatives from sectors such as steel, paper and chemicals, told ministers at a meeting yesterday that even a 50 per cent discount in the energy tax would hit their competitiveness.

The new tax will cost some companies millions of pounds a year, and ministers have acknowledged that they will have to give special help to the biggest energy users.

John Prescott, the deputy prime minister and chief transport minister, is considering offering a 50 per cent reduced rate to the biggest energy users, providing they agree to make substantial cuts in their fuel use. The tax, which will raise about £1.75bn ($2.85bn) a year, will be introduced in April 2001, and is intended to help Britain meet its international climate change obligations. **George Parker, London**

**INSURANCE AND RISK**

### Stress is top concern

Companies are more concerned about claims of stress from employees than they are about possible damage caused by the millennium bomb, according to a survey of members of the Association of Insurance and Risk Managers, whose annual conference starts today. The survey, conducted jointly with Lloyd's of London, found terrorism was the only type of risk thought to have diminished, with 52 per cent of respondents believing the growth of terrorism would be less serious in the coming year. **Andrew Bolger, London**

# Quarantine rules stay for animals from N America

By Sathnam Sanghera in London

The UK government has refused to end quarantine restrictions for domestic animals imported into Britain from North America because of the prevalence of rabies in the US and Canada.

The much-criticised system, in which animals are kept in quarantine for six months on arrival in the UK at the owner's expense, will remain in place for pets from North America despite last week's decision to abolish it in 2001 for animals imported from certain countries.

The exclusion of North America comes after a 1998 report to the UK government by a panel of experts said that rabies was "endemic in wildlife in North America". The government's decision has created friction on both sides of the Atlantic. Dr Leslie Sinclair, director of veterinary issues for companion animals at the Humane Society of the United States, said: "With the technology that is available today, there shouldn't be any risk of rabies spreading from the US to Britain through pets. There are some very good vaccines. The current policy should be re-examined to allow people to travel with their pets."

Laura Butler, a US fundraiser based in Chicago for Passports for Pets, a British group which has campaigned for reform for five years, said: "This decision is really appalling. Almost 50 per cent of animals going into quarantine are from North America and we have very high veterinary standards.

"North America is simply not a high rabies risk, and the continuation of quarantine is bad news for people who regularly travel to the UK for business."

Under a new "passports for pets" scheme, owners bringing animals into Britain from the rest of the European Union and other countries considered rabies-free, will be spared quarantine. Instead, they will need to produce a certificate proving the animals had received anti-rabies injections.

The government is carrying out a study looking at the risk that the UK would face if the quarantine system was abolished for American pets. The whole of the UK and Ireland are free of rabies. More than 5,000 dogs and 3,000 cats pass through quarantine in the UK every year, costing owners up to £1,500 ($2,445) a time.

IMF STUDY CRITICISES ECONOMIC REGIME

# Central bank 'should be more explicit on rates path'

By Robert Chote, Economics Editor

The Bank of England – the UK central bank – should carry a more realistic and explicit discussion of the likely path for interest rates in its quarterly inflation report, according to the International Monetary Fund.

A forthcoming IMF study argues that the monetary policy regime established by the Labour government provides a suitable framework to establish credibility and reduce the inflationary bias of interest rate setting. But it says the system has "potential weaknesses", too.

The study, written by IMF economists Jan Kees Martijn and Hossein Samiei, says that the credibility of the Bank's inflation forecasts may have been weakened by the decision – in May 1997 – to give it control of interest rates.

"A situation in which the forecasts suggest that the two-year-ahead inflation target would be missed seems highly unlikely, because then the report would be questioning the committee's own policy decisions," it says.

The report adds that the monetary policy framework could be strengthened if the assumption of unchanged rates in the inflation report was replaced with "a more realistic and explicit discussion of the likely future path of the interest rate – a practice followed by the New Zealand Reserve Bank".

"Obviously, the bank would have to make it clear that it was not committing itself to a particular path, so that it could revise its projection at a later date without loss of credibility as new information became available," the study adds.

The IMF says this approach would be useful because a policy that delivers the inflation target two years ahead with unchanged interest rates might be inferior to a policy in which interest rates are altered so that the inflation target is still achieved but with less volatility in economic growth.

The Bank does produce an alternative inflation forecast but this is based on the assumption that interest rates follow the path expected by financial markets.

The study also says that several features of the UK regime could impair the co-ordination of monetary and fiscal policy. But it adds that the drawbacks should not be overstated because policy co-ordination was not particularly impressive when the Treasury was still in charge of both policies.

"Adequate exchange of information between the chancellor and the Bank of England – including, for example, the advanced announcement of tax and expenditure measures that are likely to be included in the Budget – would clearly help policy co-ordination," the report says.

The Treasury representative on the bank's monetary policy committee does provide a broad guide to the Budget measures at the preceding meeting.

He or she can also gain a sense from the meetings of where the Bank thinks rates are likely to go.

# Farm giant to shun modified food trials

By John Willman, Consumer Industries Editor

CWS Agriculture, the largest farming business in the UK, has refused to take part in the government's proposed farm-scale trials of genetically modified crops.

The trials, announced in October, are intended to monitor the ecological impact of weedkiller-tolerant oilseed rape and maize when planted on a commercial scale. If successful, they could permit the commercial planting of such crops from early next year.

But CWS, the farming wing of Europe's largest co-operative enterprise which had been asked to provide two of the four test sites for planting this year, said yesterday it had decided not to participate in the experiment.

"We feel there is no clear consensus of opinion among the various interest groups as to how this should be achieved," said Bill Shannon, head of corporate affairs. "We have decided not to take part."

CWS's refusal, only weeks before planting was due to start, is the latest setback for the government's plans to restore confidence in the modified crops following a wave of public concern. The trials were part of a four-year programme to evaluate their impact on wildlife and on biodiversity.

In February, Novartis, a developer of modified sugarbeet, said the government trials might not go ahead because of the difficulty in finding growers. It warned that farmers feared the crops would be targeted by environmental activists.

Later that month, Monsanto, the life sciences group which has pioneered many modified crops, was fined for a breach of safety regulations at a test site for modified oilseed rape in eastern England. This led to renewed calls for a five-year moratorium on commercial planting of such crops.

So far trials of the crops have been limited to small plots which are typically 36m by 10m. This next round is to test the environmental impact when they are planted over much larger areas in fields of 2.5 ha.

# Funding sought for rail link to France

By Susanna Voyle in London

Central Railway, the private company planning to build a freight rail link from the north of England to the Channel tunnel, has launched a drive to raise £10m ($16m).

Alan Stevens, finance director, said the group had secured insurance cover for the parliamentary vote needed before the infrastructure project could go ahead, removing an element of risk that might have scared off potential investors.

Central is planning its second application to build a freight link to the Channel tunnel and the £10m would fund the project up to the approval phase.

The first scheme was rejected by MPs in 1996 after criticism from communities along its route, who claimed homes would be blighted. The line will run from Liverpool in north-west England through Manchester, Leicester and London to Lille in northern France. It would mainly carry freight but some passenger trains would use it.

Mr Stevens said Central was approaching potential investors in the UK and continental Europe, including contractors that could benefit from the construction of the link, financial backers and strategic transport investors.

Central believes that the Labour government, which has stressed the need for an integrated transport strategy and is keen to drive freight off the roads, is more enthusiastic about its plans.

The group hopes to carry 40 per cent of all truck freight and believes it could carry up to 30m tonnes within two years of opening the line, taking 2m trucks a year off the roads.

Andrew Gritten, Central's chairman, said the insurance, underwritten by J & H Marsh & McLennan, meant investors would be more confident.

"We already have a lot of support amongst parliamentarians in all parties who are interested in the project for its environmental, infrastructure and regional regeneration benefits," he said.

# Pound and dollar may soon reach a parting of the ways

As it becomes more desirable for sterling to track the euro, some analysts see an end to US-UK harmony, **Alan Beattie** writes

The special relationship between the UK and the US over past decades has extended over more than foreign policy. In spite of the weak trade links between the two economies, they too have shown a marked tendency to move in harmony.

This has often been reflected in the currency markets. It has long been the standard view among traders that when the dollar goes up, the pound generally follows. The pound has traded in a narrow range of $1.60-$1.70 against the dollar for the past two years, while swinging around by over 20 per cent against the D-Mark.

But if sterling is to have an easy entry into European monetary union in the future, as the government hopes, it would aid the transition if by then the pound moves with the euro rather than the dollar. Some analysts detect signs that this is about to happen.

David Bloom, currency economist at HSBC, says that sterling is in a "transition phase", caught between the dollar and the euro. "So far this year, the market has been getting a good yield on sterling assets and so has pushed the currency up, while the euro has fallen. But as time goes on we should see the pound come closer to the euro," he says.

Michael Saunders, economist at Salomon Smith Barney in London, says conditions are falling into place for the pattern to be broken. "The recent stability of the dollar-sterling rate has reflected perceptions that the two economies have similar trends," he says. "But this has reflected temporary rather than lasting factors." He adds that a rate around $1.50 would be more like fair value for sterling against the dollar.

And Jim O'Neill, chief currency economist at Goldman Sachs, has detected the first signs of a growing consensus in the market, although it is one he does not share. But this has yet to translate into price action, he says.

"A few weeks ago, when the pound fell below $1.60, there was a half-hearted attempt by some to link sterling to the euro. But in fact the pound recovered."

Mr O'Neill adds that since there is much more dealing in dollar-euro than in dollar-sterling or euro-sterling, the pound tends to get buffeted around by movements in the other two currencies. "But in theory there is no reason sterling should go up and down with the dollar rather than the euro," he says.

Analysts have linked the close relationship between sterling and the dollar to the past synchronisation in economic cycles between the two countries. But as the UK economy falters while the US continues to power upwards, and the British government leans more and more towards Europe, many think that the time has come for the parting of the ways for the two currencies.

The underlying reasons for the past synchronisation of US and UK business cycles are hard to pin down. It is not likely to have been transmitted directly through trade: the US accounts for just 10 per cent of Britain's imports and exports, compared with nearly two thirds for the European Union.

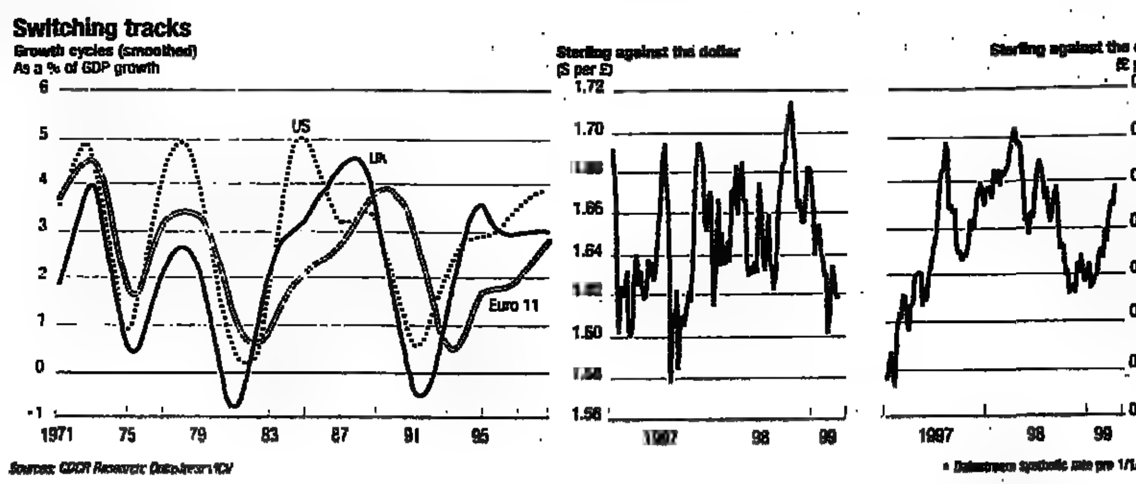
It is true that the two countries share a greater reliance on stock markets as repositories of the nation's wealth, and the movements of the Dow and the FTSE are largely connected. But the "wealth effect" of rises and falls in share prices, at least in the UK, has not been strongly correlated with private sector consumption and hence economic growth.

In some ways the links between the UK and the US in the minds of the markets are somewhat superficial. Both countries are English-speaking, have a flexible service-based economy and have moved away from state intervention in the economy. But none of this should be enough to shackle the two currencies together.

The potential, therefore, for a new paradigm of a sterling-euro link to take over market thinking is considerable.

CDC Marchés, the French financial institution, says that if the market expects sterling to join the euro, the convergence of UK interest rates with those in the euro-zone should force the British economy into line.

Switching tracks




Sources: CDCR Research; Datastream/ICV

* Datastream synthetic rate pre 1/1/1999

## MANAGEMENT

**MANAGEMENT INTERVIEW** TOM TIERNEY

# A future that lies with the stars

Professional service partnerships are booming but, the head of Bain & Co explains to **Tony Jackson**, they offer a lot of ways to go bust

Tom Tierney is a man with a mission. His industry, he says, has revenues of $70bn-$80bn a year. It is growing at twice the rate of the world economy, and has enormous indirect influence. But nobody is paying any attention to it.

He is speaking of professional service firms: partnerships in consultancy, law and the like. As befits an evangelist, he teaches the subject at Harvard Business School. He also has a more direct interest: he is worldwide head of Bain & Co, the management consultants.

In the slightly rarefied world of strategic consulting, Bain ranks third in size behind McKinsey and Boston Consulting Group. And if McKinsey is secretive, Bain is a positive oyster.

The firm came to brief and unlikely prominence a dozen years ago with the Guinness stock market scandal. Bizarrely enough, it turned out that Olivier Roux, Guinness's financial controller and a key figure in the scandal, was a Bain partner on secondment.

Mr Tierney dismisses this briskly. "We made a mistake," he says. "Ernest Saunders [Guinness chairman] asked that a Bain partner go on to his payroll. One man, one mistake. We will not do it on my watch."

He is happier warming to his basic theme: how partnerships govern themselves, how they are developing, and whether they have lessons to teach the rest of the corporate world.

Tom Peters, the management theorist, has said that professional service firms are the model for the future in any industry. Mr Tierney is less sure about that.

It depends, he argues, on the business a company is in. How far does one rely on star talent? How important is applied knowledge? How crucial is the ability to form external and internal relationships?

On such criteria, he says, a strategy consulting firm such as Bain is at one end of the spectrum. A capital-intensive cement manufacturer is at the other.

Like its rivals, Bain relies crucially on attracting the best talent. It is perpetually engaged, as Mr Tierney puts it, in star wars.

"Companies like ours are driven by stars," he says. "We compete for the top quartile of the talent pool. Those people have lots of options. You don't just have to recruit them, you have to keep them, which is often a bigger battle."

Take, for instance, his home state of California. "You have some brilliant young talent coming out of Stanford business school. They're entrepreneurial, aggressive and they have big dreams. They can go to work at Bain, or their buddy who is two years older has just started an e-commerce firm that they think is going to be worth a gazillion dollars in six months."

**'It is now March 1999, and we have zero commitments for March 2000, anywhere'**

If attracting talent is his main worry, it is not the only one. Two other things make him lose sleep.

"One is that in strategy consulting, you do business on a handshake. It is now March 1999, and we have zero commitments for March 2000, anywhere in the world. We're not hired on contract."

Second, his firm does not employ a significant amount of capital. "But you have enormous obligations: 2,200 people to pay, landlords to pay and so on. That creates a very fast-moving, fluid environment. There are a lot of ways to die in this business."

How? Well, he says, take the transition from the founder to the next generation. Bain knows all about this. Ten years ago the group of founding partners, led by William Bain, cashed in and left the business. The financial burdens this put on the firm – and the resentment among lower ranks – brought the firm to the brink of collapse.

Having survived that, he argues, gives Bain a big advantage. "The failure rate in getting from first to second generation is pretty significant. So you have companies like Bain and McKinsey at the top, and a lot of first-generation companies down below. It's really hard to break through, and it takes two or three decades."

Another good way to kill a firm, he says, is through acquisition. "Suppose a strategy firm takes over a firm that specialises in re-engineering. So you have a group of strategy consultants selling projects to CEOs, and engineers selling re-engineering. The two don't meld very well. The only reason you do an acquisition is for so-called synergy, and the only way to get synergy is for the people who sell strategy also to sell re-engineering. It turns out clients don't like that."

Perhaps, I suggest, there is another way to get into trouble: to become so big that, whatever the advantages of the partnership model, the firm becomes more like a corporation.

Again, he says, that depends on the business you are in. "In strategy, we are selling a highly customised service: one size does not fit all. It's highly people-driven, knowledge-based and quick-moving. But if you take the big IT consultants, they've got projects that are five years long, involving hundreds of people and bringing in $50m or $75m a year.

"I'd argue the partnership model is less necessary there. And in our business, the firms are smaller. It would be very difficult for Bain & Co to have 1,000 partners [it has 175]. But it's not hard for PricewaterhouseCoopers to have 5,000."

Firm hand: Tom Tierney says partnerships such as Bain & Co are perpetually engaged in star wars to attract and to keep the best talent Sinead Lynch

The real issue posed by growth, he argues, is different. The trick of business strategy lies in deciding what not to do. Partnerships, with their more democratic structure, are naturally bad at that.

"The successful firms, the ones that have survived for decades, are the ones which have learnt how to do this. If a firm has let its partnership governance overcome its ability to say no, that is an early indication of illness."

And the industry's headlong growth – 20 per cent a year throughout the decade, in Bain's case – makes this more tempting. "Growth takes pressure off if you re not careful. It's easy to get complacent."

Thus, he says, he has aimed to restrict Bain's development by geography. "It is easy to sign leases. But we're not going to sign them in Thailand or Kuala Lumpur. We'd rather have 10 partners in Singapore than one in those places. It dilutes your quality."

And, he says, Bain will remain solely a strategic consultant. "That's absolutely bucking the industry trend. The conventional wisdom says you've got to do it all. We are really good at strategy. We understand IT, but we absolutely do not sell IT services."

The really interesting question, he says, is what happens when the industry slows down. "Because it will. Anyone who doesn't believe in business cycles hasn't been through a business cycle. Then the question is whether people have been focused in previous years on strengthening their core business."

The issue applies, he says, not merely to consultancies but to their clients. "Take companies which are good at growing their top line. If you drill down and ask what they are doing, it's not complicated. They are investing and expanding their core business. If you don't have a core business, when times go down you are demolished."

The mistake companies make, he argues, is to stray too far afield in a search for growth. "Then somebody comes into their core business and clobbers them, they've got into areas that they don't really know, and they're in trouble."

And if that is a problem for Bain's clients, it is more so, he believes, for his rivals. "The tension is between partnership management and strategic implementation. I would argue that most professional service firms do not implement a strategy very well. And that means saying no."

PEOPLE ON THE MOVE

## Robert Fleming follows ownership move with changes at the top

Robert Fleming Holdings, the UK investment banking and asset management group, has officially taken full ownership of Jardine Fleming, the Asian joint venture it shared for 28 years with trading group Jardine Matheson.

Jardine Fleming will keep its name and Hong Kong head office for Asia, but be run as part of Flemings' global business. Flemings accompanied last week's final regulatory approval for the deal with a number of management changes.

**Henry Strutt**, JF's group chairman and managing director, becomes one of two joint chief executives of investment banking, together with **Bernard Taylor**, who was Robert Fleming's head of corporate finance.

Strutt will be succeeded as JF's chairman in Hong Kong by **Tim Freshwater**, currently deputy chairman, while **Anthony McGrath** steps into Taylor's shoes.

On the asset management side, Paul Bateman continues as chief executive, **Tony Robinson** becomes group chief investment officer and **Clive Brown** takes over as finance and operations director from Tony Doggart, who retires in October.

At main board level, Adam Fleming has retired as deputy chairman and director. His younger brother, **Roddie Fleming**, a corporate finance director at the bank, and **Lord Renwick**, former UK ambassador in the US and South Africa, replace him as deputy chairmen. Both are already board members.

**Philip Fleming**, cousin of Adam and Roddie and son of the bank's former chairman, Robin Fleming, joins the board to keep the controlling family's representation at two.

**Rodney Leach** becomes the second director from Jardine Matheson, which has raised its stake in Flemings to 18 per cent as part of the deal originally announced in December. Philip Wichelow, former finance and operations director, is to retire from the group board.

*Clay Harris, London*

## Daniels promoted by Citigroup

Citigroup, the financial services conglomerate formed by last year's merger of Citicorp with Travelers Group, has appointed a new head of its life insurance division.

**Eric Daniels** becomes president and chief executive of Travelers Life & Annuity, based in Hartford in the US. The job is one of the most important assignments in the company's ambitious attempt to cross-sell financial services products to American consumers.

The job became vacant after Michael Carpenter was promoted last year to co-chief executive of Citigroup's corporate bank, after the surprising resignation of Jamie Dimon, the former Citigroup president.

The appointment is a fresh example of a former Citibank executive moving to a business from the former Travelers Group. Daniels spent 23 years with Citibank, including postings in Brussels, London and Buenos Aires. Appointments in the opposite direction include putting former Travelers executives in charge of the Citibank branch network in the US and in charge of the former Citibank credit card business.

All the changes are part of an attempt to persuade executives across the broadly dispersed company to maximise sales of products from other divisions.

*John Authers, New York*

## VSO chief to head British Council

The British Council, the body that promotes Britain's image and culture abroad, has named **David Green**, currently head of Voluntary Services Overseas (VSO), as its new director-general.

Green, 50, has spent most of his career in overseas aid and development. He takes over from Tom Buchanan, the acting director-general, who has run the council since last November when its previous head, David Drewry, quit in a row about management policy.

Baroness Helena Kennedy, who chairs the British Council, appeared to indicate a hope that the new appointment's background would match the council's needs better than that of Drewry, a geologist who only ran the Council for 10 months.

Green's "experience of managing a UK-based international organisation will be extremely valuable and his first-hand knowledge of life overseas will help him understand the issues we face with offices in over 230 towns and cities worldwide," said Baroness Kennedy. The British Council broke with tradition in recruiting Green, and his predecessor, by public advertisement and executive search.

VSO, the equivalent of the US Peace Corps, has some 1,750 volunteers working in 60 countries, and a total of 500 permanent staff in Britain and abroad. Its geographical range is similar to that of the council, though it is more focused on development work and has a strong link with the Department for International Development. Before his arrival at VSO in 1990, Green spent 15 years with the Save the Children Fund.

*David Buchan, London*

## Bowles joins First Union

Throughout his two-year stint as White House chief of staff, **Erskine Bowles** openly said he longed to return to the private sector. This month the former investment banker joined the board of directors of First Union, cementing a homecoming to both corporate life and to his native North Carolina.

He left the president's side in November to become general partner of Forstmann Little, the New York private equity group, where he started in January. Bowles is also juggling the managing directorship of Carousel Capital, another merchant banking and private equity company – a position he filled for a year before being appointed to the Clinton administration in November 1996.

Observers say his business outlook, characterised by unpolitical punctuality and the proliferation of his own personal staff to manage the ranks below, was an asset while at the White House. Bowles, 53, once described himself as a "chief operating officer" with the president as chairman and chief executive officer.

Prior to that, his political experience was limited to the top job at the US small business administration between March 1993 and September 1994 – a reward for his fundraising efforts during Clinton's 1992 presidential bid. He then served as deputy chief of staff to his predecessor, Leon Panetta, for a year before starting at Carousel Capital. Panetta, in contrast, was a prominent 16-year veteran of the House of Representatives.

A southerner like the president, Bowles was tempted back to politics at the start of Clinton's second term. It was hoped someone with a non-partisan background would be useful for brokering a balanced budget deal with a Republican-dominated Congress.

Bowles, who is firmly in the fiscally prudent, economically conservative wing of the Democratic party, characterised his own approach as more decentralised than that of his predecessors with an emphasis on delegating responsibility and accountability.

He originally said he would leave the post early last year but stayed on because the prospect of an earlier-than-expected balanced budget brought with it the opportunity for a more activist agenda for 1998.

His return to the private sector follows last year's departure of Franklin Raines, the White House budget director credited with balancing the US budget, to become chairman and chief executive of the Federal National Mortgage Association, the US residential mortgage group better known as Fannie Mae. Raines also shared a background in investment banking.

Other presidential insiders who worked alongside Bowles in 1995, such as Dick Morris, Harold Ickes and George Stephanopoulos, have also left the White House.

*Gautam Malkani, Washington*

## Koç appoints non-Turks to board

Koç, Turkey's largest conglomerate, has appointed three foreigners to its board as part of its efforts to broaden its international profile.

The new board members of the group, which is controlled by the Koç family and covers sectors ranging from car manufacturing to food processing, are: **Helmut Oswald Maucher**, chairman of Nestle SA; **Wayne Booker**, vice-chairman of the Ford Motor Company; and **John McArthur**, adviser to the World Bank and a former dean of Harvard Business School. Notwithstanding Koç's joint venture with Ford, the group said the three were picked for their international reputation rather than for any business connections with Koç.

*Leyla Boulton, Ankara*

## Eriksson to lead Smedvig

Smedvig, a Norwegian oil service company, has completed its one-year search for a new chief executive to replace its interim chief executive officer, who took over after Smedvig's leader of 26 years, Ole Melberg, resigned last year.

**Christian Bull Eriksson**, 42, takes over as Smedvig's new chief executive officer on July 1. Eriksson is currently country manager, Norway, for Brown & Root Energy Services/Halliburton, a competing oil service company.

Melberg, a driving force in building the company, stepped down as chief executive last March following cost overruns and completion delays with the construction of two drill ships for the oil industry, West Navion I and West Navion II.

As a result, the board appointed Stale Rod as acting chief executive officer until a new one could be found. Rod, who has worked for Smedvig since 1981, will return to his former position as head of Smedvig Asia.

Commenting on the appointment, Peter T Smedvig, chairman of the company, said that Eriksson was "an energetic and dynamic manager with a proven track record in business development and project management in particular".

Eriksson joins as Smedvig faces leaner times in the oil industry amid low crude prices and reduced investments by oil companies worldwide. The company is also in the middle of a NKr2.6bn ($333m) law suit with oil company Exxon regarding cost overruns on a floating production ship for North Sea oilfield Balder.

*Valeria Sköld, Oslo*

David Green, who is moving from VSO to the top job at the British Council

## Keremoglu to quit Efes after 27 years

**Ilker Keremoglu** is to step down in May as chief executive of Efes, Turkey's biggest beer and soft drinks company, to join STFA, a privately held conglomerate spanning construction, defence, ship-building and catering.

Keremoglu, 50, the architect of the merger of separately listed breweries and one maltery that constitutes Efes, said he would stay on the company's board, partly to see through the reorganisation of his employer of 27 years. Efes is owned by the Anadolu conglomerate.

He is to present details of the finalised merger plan to international investors on a roadshow at the end of April or in early May.

The executive sees his new role as chief executive of STFA, which is experiencing some financial difficulties, as the "last challenge" of his business career. Describing the bank debts accumulated by STFA, which is owned by the Taskent family, as "manageable", he is convinced he can make the group profitable again with the help of financial and marketing skills.

Stressing that STFA's core competence is engineering even though it includes sectors such as catering, Keremoglu hinted that some restructuring might also be in order.

*Leyla Boulton, Ankara*

## Moving places

● **Credit Suisse Asset Management** has appointed **Joanna Meager** to the newly created position of director of European operations. Meager joins from Salomon Smith Barney where she was director of the European team's Emu programme.

● **LHS Communication Systems**, a subsidiary of LHS Group, has appointed **Nelson Campelo** to vice-president, sales and integrations and delegate manager of LHS's Brazilian subsidiary, LHS do Brazil. Campelo joined LHS from SAP, where he was director of utilities for the company's Brazilian business unit.

● **Wildfire Communications** has named **Chris Hart** as vice-president and managing director, Europe, to lead the European expansion of its voice-activated virtual assistant called Wildfire. Hart, 42, joins from Nortel Networks.

● **International logistics service provider Tibbett & Britten Group** has appointed **Tom Brown**, 44, to the newly created position of operations director at its Continental Europe business unit. Brown joins from BOC Distribution Services.

*People on the Move is edited by Lisa Wood. Phone 00 44 171 873 3605*

Isolated and shut off in its on special gallery: Humphrey Ocean's nicely ironical 'The First of England'

# Sea visions all but beached

**William Packer** surveys the specially commissioned works of Britain's new National Maritime Museum

The UK is a maritime nation, or rather it was: and whatever greatness historical correctness still allows Britain to pride itself on was founded upon a command of the seas – Britannia Rules the Waves and all that. It trades still around the world, perhaps as much as ever, but the container traffic by which it keeps it up is now all but invisible, certainly unromantic, and probably registered abroad.

It was only 30 years ago that the cranes still worked along the Southwark bank, and all those smart flats and studios beside the Thames were warehouses stuffed with merchandise. And as with the Port of London, so it has been, more or less, with all the ports, large and small, from Newlyn to Peterhead. The Sea no longer holds the central place that once it did in the national life.

Behind the spectacular £20m redevelopment of the National Maritime Museum (which has thrown the largest free-span glass roof in Europe across its former central courtyard) lies the prime intention to address this perceptual shift of attitude in a more positively didactic and interpretative manner. As is the way nowadays, this means a more inter-active, audio-visual, explicatory approach – which may work, or may not. We know how intrusive yet, in other moods, how engaging, such things can be.

With two handsome ranges of new galleries dedicated to the museum's unrivalled collections of paintings, drawings and engravings upon marine subjects of all kinds, and more than 1m photographs and negatives, we may look forward to a long future of interesting, infinitely various exhibitions.

An immediate gesture symbolic of this commitment to art has been the commissioning of seven young or youngish artists to respond to the museum's collections, or its general purpose, or their own experience of the sea, but not as a collective exercise. Each artist has worked alone, and the results, which will remain permanently in the museum, are unrelated to each other, and shown separately.

"New Visions of the Sea" is the title under which they have worked, an invitation indeed to do more or less anything they liked, and in principle, in its open yet discreet embrace of the contemporary, the initiative is broadly to be welcomed.

But in the event, it is also predictable in the kind of art that it addresses, with all but one of the seven works conceptual to a degree. Some work there was bound to be, and individual pieces are unexceptionable, but close to 87 per cent is a bit much. Certainly "The First of England", Humphrey Ocean's large and nicely ironical painting of modern voyagers on the deck of a cross-Channel ferry off the White Cliffs of Dover, is isolated still further by being shut off in its special gallery.

The scene, or rather tone, is set by Bill Fontana's "sound sculpture" (that pliable and concrete medium), that greets us at the gates of the museum with the sound of the waves crashing on the Chesil Beach. All very evocative and mood-inducing, but, live or recorded, just when, some of us might ask ourselves, does a sound effect become a work of art?

Directly inside the new main entrance is Lucy Blakstad's video wall, a nicely worked exercise from a distinguished documentary film-maker. It is called "The Shipping Forecast, Wednesday 9 December 1998 12.01 GMT", and is the combined product of the far-flung cameramen who, watches synchronised at Blakstad's direction, filmed the sea on the spot as the familiar Sea Area litany for the day was read out.

Tacita Dean has continued to work upon her fascination with Donald Crowhurst, the yachtsman who, having falsified his position, was lost at sea on the single-handed Round-the-World race of 1969.

Here, her "art-work" consists of a simple text, "IT IS THE MERCY", the final entry in Crowhurst's log, inscribed on the balcony rail above Sir Robin Knox-Johnston's own round-the-world yacht, Suhaili – very poignant and meaningful. She has also taken photographs of Crowhurst's trimaran, Teignmouth Electron, now a beached and derelict hulk on the Cayman Islands.

Stefan Gec's contribution, "Faedm", is a blue globe, now much buckled and pushed in on itself under pressure in a hyperbaric testing chamber, and minutely painted with numbers registering the depths in fathoms at various points of the world's oceans. Kasia Moraska has made a bronze sculpture, "The Bridge", loosely based upon the naval epaulette.

And Rosie Leventon, last of the seven, has made a delicate abstracted boat consisting of small panes of glass strung together in mid-air. It hangs close by the stern-gallery and figure-head, which are all that survive of the Implacable, the French man-of-war taken at Trafalgar and blown-up by the Royal Navy, just after the last war, in an act of penny-pinching, unimaginative, unnecessary vandalism.

Called "Absentee", as if it were the ghost of a ship, it is for me, along with Ocean's painting, the most successful of these commissioned works, for being the least literal, limited and imaginatively limiting – the sins of conceptual art.

Ambiguous in its presence, intriguing in its form and substance, entirely itself, it is a proper sculpture.

New Visions of the Sea: The National Maritime Museum, Greenwich, London SE10: a contemporary art initiative supported by the National Lottery through the Arts Council of England, with grants from the Henry Moore Foundation, the Esmee Fairbairn Charitable Trust, The Elephant Trust, Marks and Spencer, Rankin Glass, the National Hyperbaric Centre and the Friends of the National Maritime Museum.

CONCERTS IN LONDON

# Spotlight on the Big Three

The past weekend provided a good opportunity to check the musical health of the UK. Three of its leading orchestras were in London and each came with a music director very important to it – either past, present or future.

At the Barbican, the Royal Philharmonic Orchestra was on show with its present music director, Daniele Gatti. We seem to see less and less of this orchestra live these days; sadly, Thursday's concert did not encourage one to see it more often. Although the musicians of the RPO played well enough, the programme – one of its Berg and Mahler series – had nothing in it to enjoy.

Catherine Malfitano sang painfully out of tune and with no romantic beauty of tone in Berg's *Seven Early Songs*, though she fared better in the three fragments from *Wozzeck*. Gatti's performance of Brahms's Second Symphony was like wading through treacle. Everything was stickily legato and Gatti underlined the important moments so lugubriously that the symphony's feet stuck to the ground.

On Friday, the City of Birmingham Symphony Orchestra returned to the Royal Festival Hall for the latest in its Towards the Millennium concerts. It was the past music director this time – Simon Rattle, who has been the driving force of this survey of music through the 20th century.

With only a year to go, Towards the Millennium has reached the music written in the 1990s, recent enough to make picking winners difficult. Kurtág's *Grabstein für Stephan* is concerned with effects rather than substance and looks unlikely to survive for long. Birtwistle's *Earth Dances*, played last, creates a powerful sense of having been drawn up from the depths of some primeval soul, but take any five minutes of it and they tend to sound like any other five.

The piece most likely to reward repeated listening was Gubaidulina's *Offertorium*. Though disjointed and fragmentary in the first half, it draws its elements together into a sustained finale which leaves the cumulative feeling of significant stature. It also provides a concerto framework of many possibilities for the solo violinist, here the cogent Vadim Repin.

On Saturday, it was the turn of the London Philharmonic Orchestra and its principal-conductor-to-be, Kurt Masur. After years of searching for a conductor, not to mention – a bigger problem – the money to pay

**The initial rustle of the strings was urgent rather than restful**

for one, the LPO seems to have made a good choice.

The autumnal accompaniment to Strauss's *Four Last Songs* glowed as if conductor and orchestra shared the same yearning for its sunset warmth. Felicity Lott was lucky to sing with this quality of support and phrased the ebb and flow of Strauss's long melodic lines beautifully at Masur's well-judged speeds.

His performance of Bruckner's Fourth Symphony was unusually eventful. The initial rustle of the strings was urgent rather than restful and all four movements came with clearly dramatised scenarios. Some of the exposed orchestral parts sounded tentative, not least the out-of-tune cellos near the end, and it will be Masur's job to sort out problems such as those.

At least for this orchestra the future promises to be better than its immediate past.

**Richard Fairman**

# Quartet on a quest to get closer

NEW YORK THEATRE

**BRENDAN LEMON**

*Closer*
Music Box Theatre, Broadway

I know what men want," announces a young woman named Anna in the opening scene of Patrick Marber's 1997 drama, *Closer*, which originated at London's National Theatre and has just opened on Broadway.

Her pronouncement is expressed in blunt, orgasm-obsessed language, but it is essentially a condensed version of what Freud – the kind of egg-headed writer Anna loathes – said that every lover wants: a combination of animal passion and civilised tenderness.

Male desire, along with truth, fantasy and the malleability of erotic identity, are among the many issues that Patrick Marber addresses in this dark, direct, highly stimulating play, and if there is something profoundly unresolved about his exploration of these matters then that may have less to do with flawed dramaturgy than with the nature of sexual thrill-seekings, which in Marber's world is a pursuit fully satisfied only by death.

It is not accidental that the play ends in a cemetery, nor is it by chance that the story begins in a hospital waiting room: in the sex wars as seen by Marber, we are all casualties.

Although the production's set, by Vicki Mortimer, which sits uncomfortably on the Music Box's stage, consists primarily of hulking brown-gray battlements, and the play's language is shot through with images of primal struggle, the action is almost unbearably small in scale.

Over a four-year period in contemporary London, we observe the formation and dissolution of relationships among two men and two women. While there is nothing particularly novel in Marber's erotic set-up – Paul Mazursky used a more communal variation of it in his 1969 movie *Bob and Carol and Ted and Alice*, and in his two recent films Neil LaBute has created American cousins to Marber's cut-throat males – the play's sexual explicitness nonetheless feels bracingly original.

Each member of the quartet struggles to be kind and considerate, or at least honest, with the others, yet they are all capable of brutal competitiveness. By profession, each is invasive: Alice (Anna Friel), a lap-dancer and erstwhile courtesan plumbs men's fantasies; Dan (Rupert Graves), an obituary writer, traffics in messy biographies; Larry (Ciaran Hinds), a dermatologist, slices open damaged tissue; and Anna (Natasha Richardson), a photographer, "steals souls".

While Marber's handling of the characters' chronologies is expert, there is an unnerving variability in the performances. This may have to do with their unequal experience with the play, and *also* with the way the roles are written.

Richardson, for example, who is new to the proceedings, has the least fleshed-out part. Her curvaceous form and slightly slutty high-heeled gait are sufficient to attract our attention, but her Anna, until late in the second act, is otherwise such a cipher that it is difficult to believe that the two guys would keep fighting over her, unless Marber means to suggest that men will invariably prefer a woman long on shape but short on personality. It is easier to project one's fantasies on to a screen that is blank than one which is crackling with intelligence.

Richardson's vocal style, unfortunately, fails to heighten Anna's physical allure. Her delivery is so slow that at times you feel part of an old-fashioned transatlantic phone conversation, where every exchange is delayed by a half-beat.

Graves is very good as a mobile-tethered man, who, to prove he is not a complete cad, can dissolve into sobs to get his way. Friel, on the other hand, knows that if she turns on the tears too often her fragile waif routine will drive men away.

The richest performance here belongs to Hinds. In its journey from the tight confines of the National's Cottesloe, where the actor was a member of the play's original cast, to the vast proscenium of Broadway's *Music Box*, *Closer* has lost a fair amount of intimacy, but, at least when Hinds is on stage, little of its power.

Whether confessing an infidelity in his bedroom or maltreating a stripper at a nightclub, Hinds creates a multi-faceted individual who both craves and causes humiliation. His jagged yet affecting plight helps make the play not only a bleak exercise in contemporary sexual politics, but a humane study in painful romantic contradictions.

Uneven performances: Natasha Richardson and Ciaran Hinds in 'Closer' Joan Marcus

INTERNATIONAL

# Arts Guide

## AMSTERDAM

**DANCE**
**Het Muziektheater**
*Tel: 31-20-551 8911*
Dutch National Ballet: programme combining the Dutch premiere of Acts of Light by Martha Graham, with the world premiere of Krzysztof Pastor's Bitter Sweet, and Balanchine's Symphony in C; Mar 30, 31; Apr 2, 3, 4.

**EXHIBITION**
**Rijksmuseum**
*Tel: 31-20-673 2121*
Shakudo: display of Asiatic objects highly popular in Europe and imported in large quantities by the Dutch East India Company. Mainly they were luxury goods such as sword hilts and tobacco boxes; to Apr 5

## BARCELONA

**EXHIBITION**
**Museu Picasso**
*Tel: 34-3-319 6310*
Picasso - Engravings 1900-1942: temporary exhibition with more than 250 works from the Musée Picasso in Paris. It presents Picasso's engravings as a diary, a daily examination of his emotions: it follows the different themes and techniques that *inform the artist's work*; to Apr 4

## BERLIN

**CONCERTS**
**Staatsoper unter den Linden**
*Tel: 49-30-2035 4555*
*www.staatsoper-berlin.org*
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by R. Strauss; Apr 3
● Chicago Symphony Orchestra and Chorus: conducted by Daniel Barenboim in Brahms's German Requiem, with soprano Dorothea Röschmann and baritone Thomas Quasthoff; Mar 31
● Chicago Symphony Orchestra and Chorus: concert performance of Moses und Aron, by Schoenberg, conducted by Pierre Boulez, with a cast led by David Pittman-Jennings and Chris Merritt; Apr 1
● Staatskapelle Berlin: conducted by Pierre Boulez in Mahler's Das Lied von der Erde, with tenor Jon Villars and baritone Roman Trekel; Apr 4

**DANCE**
**Deutsche Oper**
*Tel: 49-30-34384-01*
● Cinderella: staging by Roberto de Oliveira. Kevin McCutcheon conducts Prokofiev's score; Mar 31; Apr 3

**OPERA**
**Deutsche Oper**
*Tel: 49-30-34384-01*
● Der Fliegende Holländer: by Wagner. Conducted by Rudolf Piehlmayer in a staging by Götz Friedrich; Apr 1
● Matthäus-Passion: Christopher Hogwood conducts Johann Bach's and Felix Mendelssohn's score; staged by Günther Uecker, Götz Friedrich and Dietlinde Calsow; Apr 2, 4
**Staatsoper unter den Linden**
*Tel: 49-30-2035 4555*
*www.staatsoper-berlin.org*
● Lohengrin: by Wagner. Conducted by Daniel Barenboim in a staging by Harry Kupfer; Mar 30; Apr 4
● Tannhäuser: by Wagner. Conducted by Daniel Barenboim in a staging by Harry Kupfer; Apr 2

## BONN

**EXHIBITION**
**Kunst- und Ausstellungshalle der Bundesrepublik Deutschland**
*Tel: 49-228-917-1200*
*www.kah-bonn.de*
Museu Nacional de Arte Antiga, Lisbon: this latest in the museum's Great Collections series leads visitors through seven centuries of Portuguese art and history. The 200 works on display include paintings, sculptures and drawings, as well as objects made in Portugal's porcelain factories and gold workshops; to Jul 11

## HOUSTON

**EXHIBITION**
**The Museum of Fine Arts**
*Tel: 1-713-639 7540*
Art at Work: Forty Years of the Chase Manhattan Collection. Celebrates the 40th anniversary of an art program that has become the model for corporations worldwide collecting art. Is presented jointly with the Contemporary Arts Museum. Shows some 77 works incorporating the major art movements from postwar American and European art starting with Abstract Expressionism; to May 2

## LONDON

**CONCERT**
**Royal Festival Hall**
*Tel: 44-171-960 4242*
BBC Symphony Orchestra and Chorus: conducted by Andrew Davis in the world premiere of Richard Causton's Millennium Scenes, and works by Britten, Birtwistle and Tippett; Mar 31

**EXHIBITION**
**Victoria and Albert Museum**
*Tel: 44-171-938 8500*
The Arts of the Sikh Kingdoms: first international exhibition of its kind which tells the story of the cultural heritage of the Sikhs. Coincides with the 300th anniversary of Guru Gobind Singh's creation of the sacred brotherhood of the Khalsa; to Jul 25

**OPERA**
**English National Opera, London Coliseum**
*Tel: 44-171-632 8300*
● Mefistofele: by Boito. Conducted by Oliver von Dohnányi in a new staging by Ian Judge; Mar 30; Apr 6
● Salome: David Atherton conducts Richard Strauss' opera, starring Vivian Tierney as Salome in David Leveaux's production; Apr 1

## LOS ANGELES

**CONCERT**
**Music Center: Dorothy Chandler Pavilion**
*Tel: 1-213-365 3500*
*www.laphil.org*
Los Angeles Philharmonic: conducted by Antonio Pappano in works by Honegger, Liszt, and Mendelssohn; with Jean-Yves Thibaudet on piano; Apr 1, 2, 3

## MUNICH

**CONCERTS**
**Philharmonie Gasteig**
*Tel: 49-89-5481 8181*
● Munich Bach Choir and Orchestra: conducted by Hanns-Martin Schneidt in Bach's St. John Passion; Mar 31
● Munich Philharmonic Orchestra: conducted by James Levine in works by Berg and Mahler, with violin soloist Christian Tetzlaff; Mar 30

## NEW YORK

**EXHIBITION**
**Whitney Museum of American Art**
*Tel: 1-212-570 3633*
Ray Johnson: Correspondences examines various works (1950's to 1990's) from the collagist and mail artist who has earned a legendary reputation and for his pop art. Organised by the Wexner Center for the Arts, Ohio State University; to April 14 2000

**OPERA**
**Metropolitan Opera, Lincoln Center**
*Tel: 1-212-362 6000*
*www.metopera.org*
Susannah: by Floyd. James Conlon conducts a new staging by Robert Falls, with a cast led by Renée Fleming and Samuel Ramey; Mar 31; Apr 3
**New York City Opera, New York State Theater**
*Tel: 1-212-870 5570*
*www.nycopera.com*
Don Giovanni: Christopher Larkin debuts as conductor with sets and costumes by Rolf Langenfass. Victor Benedetti leads the cast in the title role; Mar 30

## PARIS

**OPERA**
**Opéra National de Paris, Opéra Bastille**
*Tel: 33-1-4473 1300*
*www.opera-de-paris.fr*
Lucia di Lammermoor: by Donizetti. Conducted by Bruno Campanella in a staging by Andrei Serban and Robert Carsen, with designs by William Dudley; Mar 30; Apr 1

## TOKYO

**CONCERTS**
**Suntory Hall**
*Tel: 81-3-3584 9999*
Japan Philharmonic Symphony
● Orchestra: conducted by Ken-ichiro Kobayashi in works by Tchaikovsky and Prokofiev, with piano soloist Hiromi Okada; Mar 30
● New Japan Philharmonic: Hiroshi Wakasugi conducts in works by Alban Berg and Kurt Weill; with Mari Midorikawa and Michio Tatara as soloists; Apr 5

## VIENNA

**OPERA**
**Wiener Staatsoper**
*Tel: 43-1-51444*
Macbeth: by Verdi. Conducted by Simone Young in a staging by Peter Wood, with a cast led by Leo Nucci; Mar 30

## TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

**EUROPEAN CABLE AND SATELLITE BUSINESS TV**

● **CNN International**
Monday to Friday, GMT:

**06.30:** *Moneyline with Lou Dobbs*
**13.30:** *Business Asia*
**19.30:** *World Business Today*
**22.00:** *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

PETER MARTIN

# Social dynamics

What's the link between a PC and a Mars bar? The answer tells you much about the real challenges of product innovation

In five years' time, what will be the difference between a television set and a personal computer? Technologically speaking, said Bill Gates last week, they will be identical. But the way in which the two devices are used will remain different, he said, so we will continue to call them by different names.

This is a more profound insight than it seems. Social context is an increasingly important element in determining business success. Companies have known for years that products and services must move beyond the satisfaction of utilitarian needs. That is why we have cars – and computers – that are not merely black or beige.

But the focus of product design has tended to be on the individual purchaser or user. Too few companies are aware of the social context in which their products are used; fewer still redesign them to fit better into that environment.

Look at two different examples. They may not seem to have much in common. But in fact both of them tap into deep human feelings about the distinction between the individual and the group. The first is the PC/TV distinction Mr Gates referred to. The other is the success of bite-sized chocolate bars.

On the surface, the difference between a PC and a television is all about sitting positions. You sit up at a computer; you sit back to watch TV. You continuously interact with a computer, but your relationship with a TV set is essentially passive.

Most important, you work on the computer alone, or with, at most, one other person. But the archetypical experience of watching TV is with your family or friends, as part of a group.

This last distinction underpins all the others. It is hard for more than one person at a time to interact successfully with a TV set – just ask anyone who has ever tried to wrest the remote control from a 10-year-old.

You sit up to transact business, and you do it most efficiently alone, or with one other co-purchaser. You sit back to be entertained, and this is most fun in a group.

Up to now, product design in both categories has been dictated by historical coincidence and technological legacies. PCs look the way they do because they derive from typewriters. Televisions are – in physical format – a fusion of two 1920s design themes, radio and cinema, enhanced by Robert Adler's 1956 addition of a remote control. The two products have only a screen in common, and even that has been based on different technology.

Now, as Bill Gates points out, the technology is converging. But the social needs are not. You still need different physical formats to match the different contexts in which the products are used. And – though Mr Gates does not agree – you will probably need different on-screen interfaces, too.

Success in each product area will go to manufacturers who best exploit the social dynamics. By offering five different colours of casing, Apple's iMac computer acknowledges that a PC is a personal tool, a reflection of an individual's taste.

Other much smaller personal computing products are also being developed; the more they act as an extension of an individual's personality, as in 3Com's Palm range, the more successful they are.

So far, nobody has successfully come up with a format for an intelligent television that builds on the group experience. But they will. After all, confectioners were able to take a quintessentially personal experience – eating a chocolate bar – and convert it into a group one by inventing large bags of bite-sized miniatures.

Notice, by the way, that each of the bite-size pieces is wrapped in the same way as the full-size bar. Sharing a handful of tiny Mars Bars with your friends is more rewarding than simply handing out unwrapped sweets from a bag; it collectivises the individual experience of unwrapping and eating a chocolate bar.

There is a similar opportunity for collectivising the interactive PC experience, if only hardware and software manufacturers are able to grasp it.

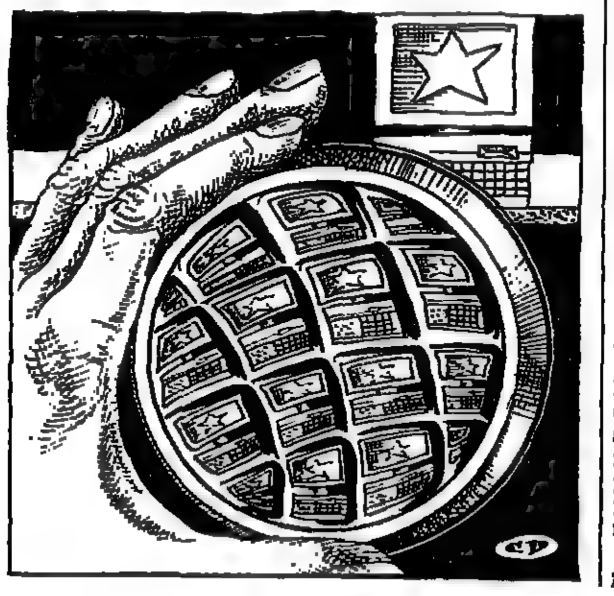
But the issue ranges more broadly than just sweets, TVs and PCs. In the early years of a product's life-cycle, the task of getting the technology to market, in a format and at a price that consumers want, is heroic enough: it enforces a one-size-fits-all approach.

The second step is to think of ways of varying the product to meet the individual tastes of the purchase decision-makers. Most products reach this stage early in their lives.

The third task – in many ways the most demanding – is to explore how the product is used in its social context, and to tailor it accordingly. Many companies fail to do this.

The fourth step is to find subtly different social contexts in which the product could be used, if only it were modified slightly. This is the leap that confectioners have made, but makers of intelligent TVs have not. It is the step that shopping mall owners take when they create "male crèches" to amuse their female customers' partners, and stop them bringing lucrative shopping expeditions to a premature halt.

Modern life has many aspects that are solitary and isolating. But human nature has a strong social and collective streak. The most successful companies will recognise that innate yearning – and create products and services that feed it.



peter.martin@ft.com

# LETTERS TO THE EDITOR

## Meeting Africa's agricultural needs

*From Mr Philip S. Angell.*

Sir, Dr Hans Herren, director general of the International Center of Insect Physiology and Ecology in Nairobi, states that "too narrow an approach to food security is dangerous" about using genetically modified foods in African agriculture ("Genetic engineering will not feed hungry, say Africans", March 16). At Monsanto, we completely agree. No life sciences company claims genetic engineering is the solution to the developmental challenges facing African agriculture. Rather, we have only ever claimed that biotechnology is one tool in a comprehensive, integrated and culturally sensitive solution to African agricultural challenges.

More research must be done on food and cash crops grown commonly in the developing world – and we are doing that. In Kenya, for instance, we have developed sweet potato strains resistant to diseases now destroying up to 50 per cent of the crop. We are also working on improving yields, pest and disease resistance for African crops such as rice, cassava and maize. When integrated, managed and implemented in ways sensitive to African circumstances, these crops may help meet African food, environmental and economic development needs.

One example demonstrates how biotechnology can help meet critical world health needs. Monsanto has developed a method for enhancing beta carotene, a precursor of Vitamin A, in a variety of oil seed crops. A teaspoon of oil from these plants will provide the daily adult requirement of Vitamin A. We recently donated this technology to a partnership comprised of the US Agency for International Development and other non-governmental agencies for use in the developing world.

This is important because tens of thousands of children in the developing world today go blind and suffer other related health problems from a vitamin A deficiency. Using this technology, farmers can grow crops they have always grown using traditional methods for foods that contain sufficient vitamin A to dramatically improve the lives of millions. Also, these seeds can be sustainably farmed without new and costly health-care, transportation and processing infrastructures.

Finally, no farmer anywhere is forced to buy genetically modified seeds. Unless they deliver benefits – yield, cost, environmental and so on – beyond current agricultural practices, why would a farmer buy them? In the end it is a matter of choice and who makes choices about quality, yield and potential profitability. We think farmers are most qualified to make this choice.

Philip S. Angell,
director, corporate communications,
Monsanto,
Washington DC, US

## Clean sheet as Jexim merges

*From Ikuko Matsumoto.*

Sir, Your article "Export credit agencies attacked over environment" (March 26) presents the troubling problem of public money funding environmental destruction through secretive financial institutions.

The Export-Import Bank of Japan (Jexim) regularly funds projects that displace indigenous peoples from their homelands in the Philippines, degrade tropical forests in Brazil, and after the Earth's climate through coal-fired power plants in China. Today Jexim has no credible environmental assessment standards. While US export credit and investment insurance agencies such as the Overseas Private Investment Corporation and US Ex-Im have adopted standards, other countries are quick to approve bottom-of-the-barrel projects that do not meet basic international guidelines.

However, a new day may be emerging in Japan. Jexim and the Overseas Economic Co-operation Fund are merging this year and will become the Japan Bank for International Co-operation, which will rival the World Bank in size. The ministry of finance and economic planning agencies recently pledged to adopt to common standards in conjunction with this merger. If our government follows through on this pledge, Japan and the US can jointly set an example of environmental and social leadership for the rest of the world's ECAs to follow as we start the new century. The G8 should call for transparent, common internationally recognised standards for all OECD nations' export credit and investment insurance agencies to be adopted within the next year.

Ikuko Matsumoto,
Friends of the Earth Japan,
3-17-24-2F, Mejiro,
Toshima-ku, Tokyo, Japan

## Let market judge where capital is best employed

*From Mr Michael Bartrom.*

Sir, My congratulations to Martin Wolf for his excellent column ("Carmaker's auction", March 22) on the prospects of support from the government for BMW's ailing Rover subsidiary.

Setting aside why Rover is in trouble (the fact that no one wants to buy its cars could be key to this) Mr Wolf *asks the pivotal question of* whether the government should be considering any form of assistance. At its simplest, this is a question of whether taxpayers' money should be used to support *private industry. Public* assistance for private enterprise leads to inefficiencies in the allocation of capital. One-off injections of state-funded capital do nothing to make a company's products more marketable (or that company more profitable). Far better to leave the market to be the judge of where capital is best employed.

Politicians should restrict their activities to ensuring the overall environment is not hostile to business, but this does not extend to *endowing some industries* with rescue packages. The UK government's actions in this instance will indeed be a guide to whether New Labour is prepared to "walk the talk" in the area of business *enterprise.*

Michael Bartrom,
Lower Farm, Northmoor,
Oxon OX8 1AU, UK

## Simple truth about manners

*From Mrs Julia Peachey.*

Sir, I enjoyed Lucy Kellaway's column "Manners, mime and management" (March 22) on how high-flying executives are forgetting the most basic common courtesy of acknowledging the receptionist. One of course must always appreciate that manners and courtesy cost nothing. Only those whose self-importance *exceeds this simple truth* will in the end fail themselves, even if it is but for the simple fact of not receiving life's own very important message. Take heed: it is always manners, not money, *that maketh the man.*

Julia Peachey,
11 Ascot Close,
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# Ditching le fairplay

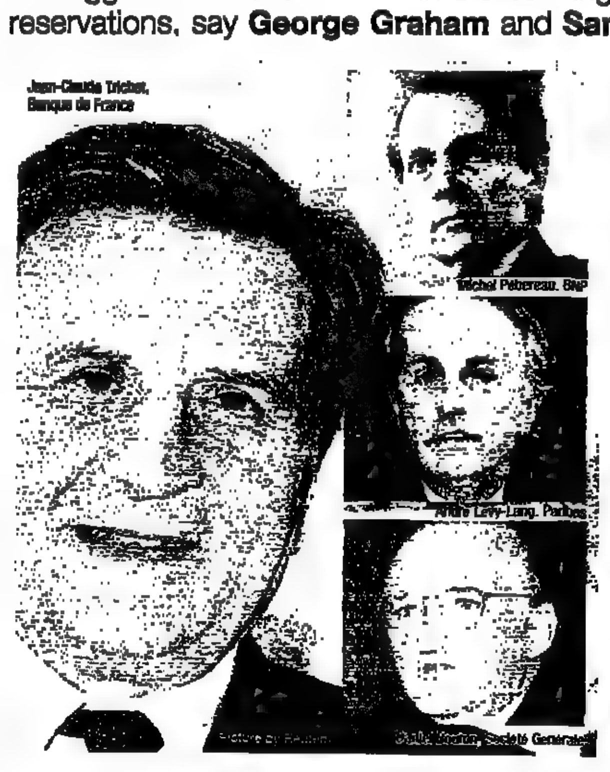
France is allowing the biggest ever takeover bid in the banking sector to proceed despite deep reservations, say **George Graham** and **Samer Iskandar**

When Jean-Claude Trichet ran the French treasury in the 1980s, he used to serve very un-Parisian pots of yoghurt for his business breakfasts. French financial institutions lagged behind their Anglo-Saxon counterparts, he explained, partly because of their lower consumption of dairy products.

Today, it would appear that French bankers have been eating rather too much yoghurt for Mr Trichet's liking. Now governor of the Bank of France, he has spent the last week trying to broker a deal that would end the unprecedented in-fighting between three of the country's largest financial institutions.

Yesterday, Mr Trichet gave his formal consent to the unsolicited bids launched earlier this month by Banque Nationale de Paris for Société Générale and Paribas, which were themselves planning to merge.

But in an accompanying statement, Mr Trichet said he "hoped the establishments concerned would reflect and engage in a dialogue among themselves with a view to reaching a solution which would fully respect each house's moral and financial interests and preserve the best interests of the banking community."



Jean-Claude Trichet, Banque de France

Michel Pébereau, BNP

André Lévy-Lang, Paribas

Daniel Bouton, Société Générale

The statement betrays the depth of unease triggered by the BNP bids in the heart of the French establishment.

Michel Pébereau, BNP's chairman, has broken the unwritten rules of the French way of doing business: his bids are hostile; they threaten to open the door to a foreign white knight; and he moved with only the most perfunctory of advance warnings to Mr Trichet and to Dominique Strauss-Kahn, the finance minister.

"What the establishment reproaches is as much the fact that Michel Pébereau did not consult the governor of the Bank of France in advance, as the fact that the bids are hostile," one senior French financier says.

Lack of consultation may not be unheard of in other countries. Paul Martin, Canada's finance minister, heard about Royal Bank of Canada's plans to merge with Bank of Montreal while shaving. He was so annoyed that he blocked the deal.

But even in the US, home of the free market liberalism France is now embracing, Sandy Weill and John Reed took great care to brief the Treasury and the Federal Reserve about their plans to merge Travelers Group and Citibank.

The breach of protocol is all the more shocking in France, where the world of high finance is very small indeed. The top bankers and bureaucrats went to the same schools, worked together in the same ministerial cabinets, gossiped together in the same *diners en ville*.

A recent report from Korn/Ferry, the executive search consultants, pointed out that two-thirds of the chairmen in the 40 largest listed companies are graduates of the same two schools: Polytechnique, the engineering institute, and Ecole Nationale d'Administration, or Ena, which grooms future high-ranking civil servants. Mr Pébereau attended both.

The same graduates also comprise almost half of all company directors.

"When executives of French companies meet to discuss a deal, it is not unusual to spend the first half hour going over who had better grades at Ena, to determine who is to speak first during the meeting," says a US investment banker based in Paris.

The protagonists in the BNP-SG-Paribas drama are closer because they have spent the last three years discussing every possible permutation of mergers between their banks.

Even their advisers are closely intertwined. The investment banks advising BNP, for example, are Lazard – where partner David Dautresme is a former chief executive of Crédit du Nord, now an SG subsidiary – and Goldman Sachs – where Jacques Mayoux is a former chairman of SG.

On the other side, Paribas has brought in Rothschild, where Marc-Olivier Laurent used to be head of mergers and acquisitions at Crédit Commercial de France, where he worked for Mr Pébereau.

But though *énarques* and *polytechniciens* may still have the right to call each by the familiar *tu* form, in other respects the force exerted by the old school ties is weakening – as Mr Trichet has found out.

"The chief executives of 50 plus, unlike their predecessors, are all now running much more international businesses and have travelled widely. The next generation down has gone a step further and lived abroad. The politicians, on the other hand, have stayed at home. The gulf between them and the business elite is growing wider all the time," a senior French banker says.

The result is not just a less deferential attitude to government authority, but something of the convert's zeal in espousing the free market in its ruthlessness.

"This will be decided by the market, not by *causeries de salon* [drawing room chit-chat]," says Baudouin Prot, BNP's chief operating officer. "In France, there has always been a conflict between the party of order and the party of movement. Well, this is very much movement."

Yet the takeover battle itself is being fought out on familiar French terrain, where it is as important to win over the government and the trade unions as the shareholders.

Despite the clearly hostile reaction of Daniel Bouton and André Lévy-Lang, chairmen of SG and Paribas, Mr Pébereau continues to insist that his bids, though unsolicited, *are friendly*. His arguments for a three-way merger are peppered with promises not to cut jobs or close branches. Indeed, BNP has had to devote considerable effort to convincing investment analysts that its merger plans will not generate nearly such large cost savings as they think.

Will French takeover battles be fought this way in years to come? Some Paris financiers believe Mr Pébereau may have opened the door to an upheaval in France's economic structure.

"It has profound implications for French industry. Why not Elf/Total, or Renault/Peugeot?" asked one French investment banker.

Even after yesterday's formal permission to proceed from the Bank of France, the battle is far from over. Its influence on French business mores will depend enormously on the result.

As one senior banker warned: "If Michel Pébereau succeeds, it could change the rules of the game for ever."

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COMMENT & ANALYSIS

FINANCIAL TIMES
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Tuesday March 30 1999

# Getting interest rates right

The next move in US interest rates should be upwards. Euro-zone rates must go down. When the the US Federal Reserve meets today, its decision is whether to move now or later. The European Central Bank at its meeting next week should not delay.

The Federal Reserve cut interest rates three times, by three quarters of a percentage point, last autumn in response to the threat to US growth from chill winds sweeping through world financial markets following Russia's collapse.

However, the US economy has weathered the international storm in remarkable fashion, growing in the last three months of 1998 at an annual rate above 6 per cent. The Dow Jones Industrial Average has bobbed above 10,000. Growth this year is likely to exceed the Fed's forecast of 2.5 to 3 per cent.

Inflation remains subdued. Even so, with the labour market so tight, consumer spending growing at a record pace, and the current account deficit rising inexorably, it is clear that overheating is now a substantial threat.

The Fed will have to take up the slack, and return interest rates nearer to last summer's level, before it adopted its emergency footing. The Fed's prompt action then was well judged. But its expansionary stance now is harder to justify.

The situation is very different in Europe. Despite clear signs of a spluttering economy, the European Central Bank has refused to cut interest rates.

European central banks did converge at the present level of 3 per cent before the euro's launch. But the outlook has deteriorated measurably since then. Euro-zone growth will struggle to reach 2 per cent in 1999. Germany, the dominant euro-zone economy, is stagnating. The gloomy outlook is reflected in the euro's slide against the dollar. This has provided some relief to European industry. But not enough.

Europe's economic ills derive in part from supply side problems which governments must address. But the euro-zone is also afflicted by inadequate demand. There is certainly no sign of inflation. The euro-zone's rising current account surplus is undesirable at a time when emerging markets need to increase exports.

The biggest obstacle to lower interest rates in the euro-zone has been politics rather than economics. The ECB has been determined to prove its independence in the face of calls for lower rates from politicians. With the departure of Oskar Lafontaine, the former German finance minister, this must not continue.

The International Monetary Fund last week became the latest international institution to call for lower euro-zone rates. The ECB has proved its independence from politicians. It must not now demonstrate an indifference to common sense.

# A taxing task

The British government has started to wrestle with a question which confronts all industrial countries: how to tax energy without harming big exporters.

In his Budget earlier this month, Gordon Brown announced that, as a step towards meeting the carbon emission targets agreed in Kyoto in 1997, industry would pay an extra £1.75bn of energy taxes from 2001-02 onwards. The chancellor also promised to try to find ways to mitigate the impact on high energy users. However, present ideas for achieving this pose dangers to the integrity of the tax system and are not likely to be economically efficient.

At their first meeting yesterday with industrial representatives since the Budget, ministers learned the scale of the problem. One energy-intensive sector estimated that the expected tax increase would be the equivalent of 40 per cent of present capital expenditure; another that it would cut pre-tax profits by half.

The government has indicated that it will return the proceeds of the carbon tax to industry by cutting payroll taxes. But energy intensive industries say that this rebate would amount to between 3 and 10 per cent of what they would pay in extra energy taxes.

In response, the government is seeking ways to give tax rebates to such sectors in exchange for promises to economise on energy. But this violates the fundamental principle of a liberal tax regime – that taxes should be non-discriminatory and transparent. If ministers could set different tax rates for different industries, the potential for corruption in government and backsliding by industry would be huge.

A further objection to such rebates is that they would protect the consumer from higher energy taxes. If the Kyoto target is to be met, big changes must be brought about throughout the western economies. That means, for example, that if high energy costs put up the price of cement, construction companies will try to use less of it and some projects will not get built.

To mitigate such effects, governments must spread the impact as widely as possible. Consumers must be given incentives to economise on heating bills as well as on cement and steel. Raising the cost of domestic fuel would be politically difficult, particularly in the UK. But it could be done if the proceeds of the tax were returned in a different form. Pensioners, for example, could be given extra money. Similarly, big industries might be helped by other tax changes, in addition to the promised payroll tax cuts.

But the energy taxes should not be cut selectively. That would be like carrying water uphill in pails made leaky to reduce the burden.

# After Cubas

Paraguay may be one of Latin America's most isolated and backward countries, but the way the country's recent constitutional crisis has ended offers hopes for the future of democracy elsewhere in the continent.

The resignation of Raúl Cubas, the president, on Sunday and the arrest yesterday in Argentina of Lino Oviedo, the former general and would-be coup leader, have enhanced the credibility of Paraguay's fragile institutions.

Mr Cubas' championing of the cause of Mr Oviedo, sentenced to prison following his unsuccessful coup attempt in 1996, had brought him into conflict with the country's congress and judiciary and threatened to make the country ungovernable.

The assassination last week of vice-president Luis Argaña, an opponent of Mr Cubas and Mr Oviedo, led to street protests, rioting and the deaths of six more people.

Paraguay's political difficulties are far from over. Luis González, the former senate president and the new head of state, has controversially said he will serve out the remaining four years of Mr Cubas' term rather than call new elections – and the country is traumatised by the violence of last week.

Even so, the avoidance of military intervention is to be celebrated. In the not so recent past events of this kind in Latin America would have triggered a coup d'état.

The fact that the armed forces are opting to stay on the sidelines owes much to growing international influence in the region.

Paraguay came under heavy pressure from its neighbours and fellow members of the South American common market, Mercosur – Brazil, Argentina and Uruguay – to adhere to constitutional government. It faced suspension from Mercosur if it had reverted to military rule.

The international community now needs to build on this success. Elsewhere in Latin America, the democratic structures painstakingly built up over the last 15 years are coming under strain and in some countries the military's influence in politics is slowly growing.

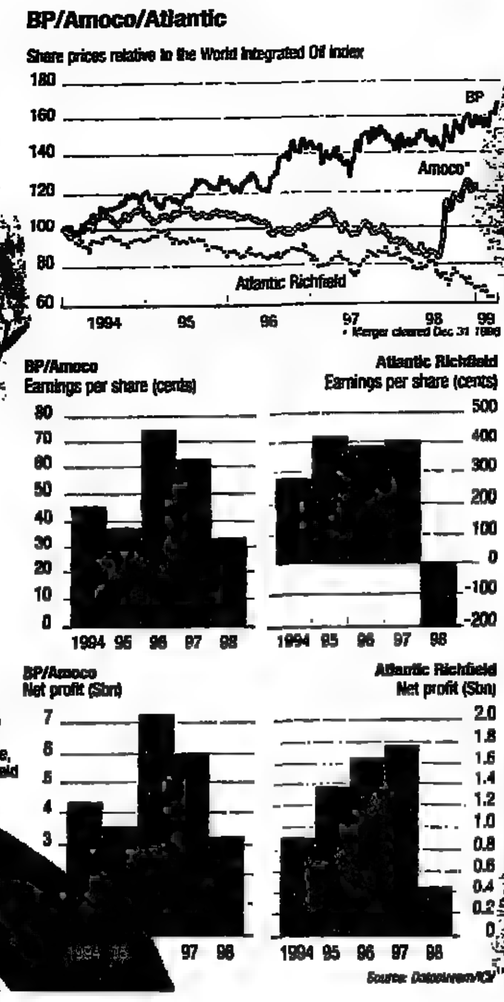
In Venezuela, for example, President Hugo Chávez has named military officers to run key government ministries. Elsewhere too, support for the simplistic populism and authoritarianism of the kind advocated by Mr Oviedo is growing.

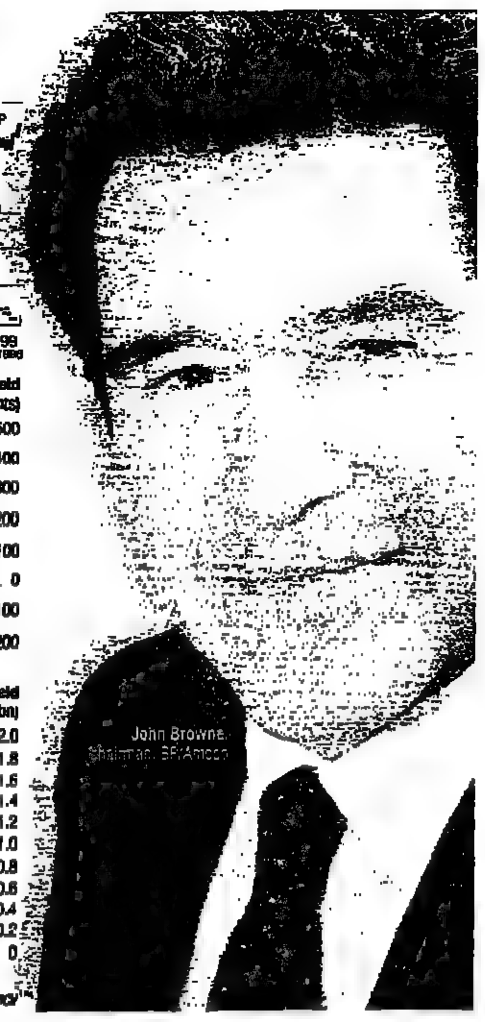
These calls must be resisted. Fully functioning democracies – including judicial systems that work – are essential if Latin America is to tackle its social and economic challenges. Latin American political leaders need to be more – not less – accountable to voters.

# Oil: big, bigger, biggest

**Robert Corzine** looks at how BP is making its aggressive acquisitions policy work, while shaking up the world oil market at the same time

Mike Bowlin, chairman and chief executive, Atlantic Richfield



John Browne

For Sir John Browne, BP Amoco's restless chief executive, successful deal-making has always been a matter of "time versus timing".

The fine judgment needed is vividly illustrated by the decision of the former British Petroleum to take over Los Angeles-based Atlantic Richfield - also known as Arco - in a $25bn all-stock deal. For the company, the timing looks ambitious: only 60 working days after concluding one of the world's biggest industrial mergers with Amoco of the US.

The question is whether the time is right (ie, whether the external circumstances warrant the deal). For if agreed later this week, the takeover would raise more than a few questions about the nature of the present wave of "Big Oil" mergers. Is BP Amoco in danger of falling into the "size-for-size-sake" trap? Can it really manage the integration of two big companies at the same time? And will the deal produce of a new round of consolidation in the western world's oil industry, which over the past four months has seen the planned takeovers of Mobil by Exxon in the US and the acquisition of PetroFina of Belgium by Total of France?

Mr Browne would no doubt bridle at suggestions that his main motivation is to make BP Amoco even bigger in the hope of eclipsing the other two members of big oil's "super league", Exxon Mobil and Royal Dutch/Shell. Although entry to the super league was one of the main factors behind last year's merger with Amoco, the proposed Arco acquisition looks different. Analysts say that it seems to be about filling in gaps in BP Amoco's existing operation, rather than about taking the operation into a new league of gigantism. Arco gives BP access to parts of the US market it is not now in. But it does not – as Amoco did – transform BP into a US oil major.

That the deal is relatively modest is perhaps just as well. Mr Browne is sensitive to criticism that BP Amoco's rapid expansion could undermine the high standing that the company in general - and he in particular - are held by competitors and investors. "Being big can make you look cold, bureaucratic, bungling and less human," he admits.

In recent public speeches Mr Browne has emerged as the leading "progressive" among oil company chief executives for his stance on issues such as the environment and global warming. In London last month he acknowledged that there is a "widespread perception" that big oil mergers are "about the accumulation of power and the elimination of competition and choice."

Analysts say the planned acquisition of Arco deal would be finely balanced to minimise such concerns, especially in the US where the Exxon Mobil link-up has awakened memories of the old Standard Oil monopoly put together at the beginning of the century by John D Rockefeller.

US regulatory authorities are especially concerned about potentially uncompetitive concentrations in downstream refining and marketing and chemicals.

Unlike Exxon Mobil, there is no overlap in those areas: Arco's two refineries and 1,700 service stations are on the west coast, while BP Amoco's refining and retail presence is east of the Rocky Mountains.

There is one area, though, where there might be a problem: Alaska. The enlarged group will have full operational control of the giant Prudhoe Bay oil and gas field. This is the biggest in the US and a main source of state revenues and jobs in Alaska. Hence, the size of the combined group could be a concern to the Alaskan state government.

Mr Browne's sense of timing may help him in dealing with the Alaskan government. The collapse in crude oil prices over the past year has threatened thousands of Alaskan jobs, as well as made the future development of the state's relatively high cost oil industry more problematic.

Mr Browne is expected to argue that the cost savings and operational efficiencies to be gained through a unified operatorship of Prudhoe Bay will make the Alaskan oil industry more competitive overall. He is also expected to promise new investment to turn into synthetic fuel Arco's vast reserves of natural gas at Prudhoe Bay. These are estimated at 25tr cubic feet, almost as much as the UK's proven total reserves.

But the recent rise in world oil prices may cause the Alaskan government to have second thoughts. "One month ago Alaska would have embraced BP Amoco and kissed them on both cheeks," according to Fergus MacLeod, oil analyst at brokers BT Alex Brown in Edinburgh. Now, he says, Mr Browne may have slightly misjudged his timing.

The bigger worry, though, is whether Mr Browne, in going for Arco, is trying to bite off more than he can chew – especially considering that he has not yet digested his last feast. After all, the benefits of many mergers have been lost during the integration phase.

If the deal goes ahead, the company is expected to "ring fence" Arco this year, with a small team of senior BP Amoco executives working with their counterparts in Los Angeles to plan the transition, which would formally take place after the deal clears all its regulatory hurdles and due diligence phases, probably by the end of the year.

What happens after that? In the case of Amoco, Mr Browne made it clear that there was no question of trying to merge two distinct business cultures to produce a new hybrid. It is BP management systems and culture that rule the combined group. Even though more American accents can be heard at the group's graceful Edwardian headquarters in the City of London, there is no question about who is in charge.

**Sheer size may not be Browne's main quest. His goal is to build an asset base to rival that of Shell**

The highly publicised departure earlier this year of several high ranking former Amoco executives who failed to survive the transition highlighted just how dominant the former BP culture is at the top of the combined group.

Indeed, at times during the transition the attitude of some BP managers bordered on the arrogant. But their senior Amoco colleagues had little scope to argue their cause. In its final years Amoco had clearly lost its way, and had become so top heavy that management processes rather than business priorities came to dominate executives. For all these reasons, BP Amoco was able to avoid the trench warfare between rival business cultures that has bedevilled so many other merged groups.

No doubt Mr Browne plans to deal with potential conflicts with Arco by imposing the same system be employed at Amoco – although senior Arco executives, having seen how quickly many of their Amoco counterparts were dispatched in the process, may not be as accommodating in the transition.

However, BP seems to hold most of the cards. Although Arco is much smaller than Amoco, it too has struggled in recent years, especially in the expansion of its international exploration and production business.

Senior BP Amoco executives also reckon that the problem of managing the overall integration should be reduced by the way in which the new company is being organised. Although the formal merger with Amoco is only three months old, most employees will be organised into new business units by the end of this month. That means the top tier of executives should have more time to oversee the Arco transition, which in turn should be be simplified by the lack of overlap between the two groups.

Only six out of BP Amoco's 123 business units are understood to be affected, with what overlap there is confined to specific areas. An added benefit is that most of Arco's assets are in geographic or product areas in which BP Amoco is familiar.

And as if all that were not enough, BP has a track record in doing big, back-to-back acquisitions. During the 1980s it swallowed Sohio of the US and Britoil in the UK in quick succession. Admittedly, that was not the best period of BP's corporate history. But for now, at any rate, there are powerful reasons for thinking that BP's acquisitions are going better than some of the other mega-mergers of recent years.

Has BP Amoco's appetite for acquisitions been sated by the latest move? In the short term, perhaps, say analysts, but probably not in the longer term. Sheer size may not be Mr Browne's main quest, but he appears determined to use his growing reputation – evinced by BP Amoco's high share price – to transform the fortunes of the group. His goal is to build an asset base to rival that of Shell, which in spite of its recent poor financial performance and structural problems, still has the most impressive array of international assets in the industry. Mr MacLeod at BT Alex Brown thinks an acquisition in Asia may be the next move for BP Amoco.

The prospect that consolidation will continue may prompt other oil companies to act quickly, if for no other reasons than the range of possible merger combinations is declining sharply.

In the US the focus of attention will shift to Chevron and Texaco. There are also question marks over Conoco's future as an independent company once its links with former parent Dupont are finally severed. Aside from Total and PetroFina the continental European industry has been slow in reacting to consolidation, with nationalistic and cultural concerns making cross-border combinations problematic.

But as companies such as BP Amoco Arco continue to challenge the conventional structure and thinking of the industry, the pressure to act may become overwhelming – even if the industrial and commercial logic of future deals proves to be less compelling than in those already done. At that point, as Mr Browne would say, it then becomes a simply a matter of "time versus timing."

# OBSERVER

## Ebner sends them scurrying

The rise of Martin Ebner, Switzerland's renowned shareholder activist, was always bound to set a few corporate hearts fluttering.

But the speed with which he appears to have disrupted big merger plans has caught many by surprise.

In the past few days the bow-tied 54-year-old has climbed to the chairmanship of Alusuisse, the big Swiss aluminium and chemicals group. And he'd have headed a much larger group if Alusuisse had consummated its planned merger with Viag, the German conglomerate.

That's a prospect that seems to have turned Viag's feet to ice.

While Theodor Tschopp, Ebner's predecessor as Alusuisse chief, whom Viag had given the green light to head the merged group, was an engineer who'd spent most of his life making aluminium, Ebner is a financial wheeler-dealer. He's made his fortune shaking up poorly performing Swiss blue chips – and has the scalps of top brass at Winterthur Insurance and UBS to prove it.

It's pretty unlikely he'd have been happy heading a partly state-owned conglomerate whose pursuits range from nuclear power to chemicals. If his past record is anything to go by, he'd have wanted to break the business up – and that wouldn't have gone down too well at Viag's Munich headquarters.

Still, now that it looks like Viag's shuffled off, Ebner's unlikely to be very upset. He's got what he wants – control of one of Switzerland's best-known corporate names – and there are plenty of other deals he can do.

## Hard sell

Chalk it up to the charm offensive. Russia and the International Monetary Fund may be singing in sweet harmony now they've agreed the beginnings of an economic plan, but Moscow didn't leave anything to chance.

IMF boss Michel Camdessus barely had time to touch down before the politicos were unleashed.

Assorted cabinet ministers, leaders of the Communist party, Yevgeny Primakov, the prime minister, and even a phone call from ailing president Boris Yeltsin were all lined up.

It even seemed Russia decided that divine intervention was also necessary. How else to explain the meeting arranged with Alexii II, head of the Orthodox church? Observer's just glad that God and mammon got on.

## Bad precedent

If you think Burmese democracy leader Aung San Suu Kyi should take a chance and travel to England for her husband's funeral later this week, perhaps you should be aware of a cautionary tale.

The opposition leader's husband Michael Aris died last week and Burma's military junta has promised that, if she went, she'd be allowed to return to the country she hasn't left in 11 years.

But Suu Kyi may remember that two years ago, in one of their periodic crackdowns on her National League for Democracy, Burmese authorities told an elderly gentleman in the party's leadership that if he did not resign from the party, his grandson would be expelled from the prestigious officer's training school at the Defence Services Academy.

The man duly resigned from the party. Two days after his resignation, his grandson was expelled from the academy anyway.

## Home run

Cuban politburo member Ricardo Alarcón couldn't have been more positive about his home team's 3-2 defeat by the Baltimore Orioles in a ground-breaking baseball game this weekend.

"In reality, both sides won," he trumpeted, celebrating the mere meeting of the teams on the diamond.

But though Alarcón was proud as punch that a major league team had come to the island for the first time in four decades, he wasn't exactly forthcoming about letting Cubans loose to play in American squads.

While Havana has no problem letting its sluggers hit home runs in the Japanese league, Washington's "hostility" – and the temptation to defect – makes the US off base.

So, although a rematch is scheduled in Baltimore for May, that could be the last you'll see stateside of Cuba's current big hitters.

## Classy.com

Amazon.com's plan to branch out from the humdrum world of books and music and launch an online auction service may mean tough competition for eBay, the internet auctioneer that's made a name for itself.

But it might be welcome news for web shoppers eager for more quality goods to buy.

eBay's current offerings look likely to fill almost any craving, however obscure it might be.

There's a 1964 Barbie wedding gift set (four dolls in their original box, minimum bid $2,051), pens that look like syringes (starting price $1.50 each) and a "very rare and certified" Pink Floyd silver-coated laser disc (from $140).

With Amazon on the scene, keyboard shoppers are sure to have even more choices.

What next? A gold-plated edition of *Monica's Story*?

*Financial Times*

## 100 years ago

**American Finances**
With the close of the fiscal year 1898/1899 well in sight, our American friends are beginning to figure up the financial position, and they are no cause for congratulation. One thing is certain: there will be a deficit, and the rival parties have already commenced the now annual task of abusing one another as the cause. We on this side of the Atlantic Ocean have nothing more than a sentimental interest in these mutual bickerings. To us it matters little whether the fault rests with the "party of liberal ideas" or with the "party of liberal appropriations."

## 50 years ago

**Wall St. Margins Cut**
Washington, March 29. Effective to-morrow, the Federal Reserve Board is reducing the margins for stock purchases to 50 per cent of the price of the securities. Previously, margin requirements were 75 per cent. Wall Street is pleased with the reduction. Mr. Emil Schram, the President of the New York Stock Exchange, called it "a most constructive step," and others called it highly desirable.

FINANCIAL TIMES
TUESDAY MARCH 30 1999



THE LEX COLUMN

# BP's rich pickings

It is easy to see why BP Amoco is keen to take over Atlantic Richfield, given how neatly the two fit together. Their dominance of Alaskan oil production would be such that it is bound to raise anti-trust concerns, though regulators have so far been relaxed about upstream concentration. Arco also has desirable reserves in the Gulf of Mexico. Downstream, meanwhile, where regulators do pay attention, there is little overlap. Arco's refining and marketing operation on the US West Coast is one of the most profitable in the business. This is a lucrative market BP has long wanted to break into.

Outside the US, by contrast, Arco's record is poor. Much of its US cashflow has been frittered away digging dry wells. Last year it wrote off $629m in exploration expenses – more than the $500m analysts project for BP Amoco this year, a company three times bigger. Simply redirecting Arco's resources to better projects should create value. And Arco's one stroke of recent luck, a huge gas find in Indonesia, would usefully increase BP Amoco's exposure to Asia.

There are legitimate worries that BP Amoco's management may be moving too fast. But investors might draw comfort from history. In the late 1980s, BP purchased the rest of its US operation, Standard Oil of Ohio, in a deal masterminded by John Browne, now chief executive. Barely 18 months later it bought Britoil. Both acquisitions were a success.

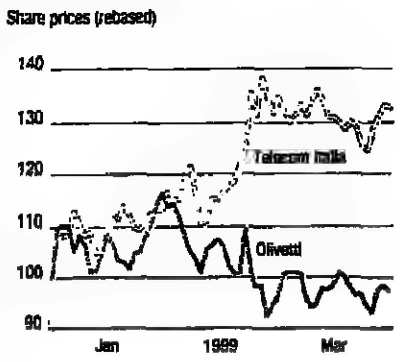
## Brazil

The return of confidence in Brazil this month has been almost as rapid as its loss in January. Barely three weeks after being forced to raise its interest rates to 45 per cent, unexpectedly benign inflation numbers have allowed the central bank to cut them to 42 per cent. The government is notching up big primary budget surpluses (excluding interest costs), unemployment is nudging down and the Real has strengthened to $1.78 from its post-devaluation low of $2.22.

A virtuous circle could now develop. The government and the International Monetary Fund calculate that at a real interest rate of around 10 per cent, Brazil's R$300bn debt pile would stabilise at a bearable 45 per cent of gross domestic product. With forecast inflation of 15-20 per cent this year, nominal rates have to fall another 12-17 points to get there – tough, but not impossible. Even progress towards that goal would ease the task of rolling over the country's overwhelmingly short term debt. Already spreads of Brazilian C-bonds over US Treasuries have narrowed from 15 per cent to 10 per cent since January and there is talk of a sovereign eurobond issue next month.

The risk is that the full impact of the Real's devaluation has yet to show up in consumer prices. If these surge in the spring, it will raise calls for wage and price indexation, which could yet plunge the country into an inflationary spiral. Brazil is on the right track, but it is too early to declare it safe.

**Olivetti/Telecom Italia**
Share prices (rebased)




Source: Datastream/ICV

## Olivetti/Telecom Italia

Telecom Italia is not off the hook yet. Franco Bernabe, Telecom's chief executive, must have hoped he had shaken off Olivetti's long-running hostile bid by proposing to spend €23bn on buying in the minorities in Telecom Italia Mobile, Telecom's cellular subsidiary. But Olivetti is proving a tenacious opponent. Its carefully crafted bid, at €11.50 a share, offers just enough to keep it on the battlefield. And by threatening to reduce the price if shareholders approve Telecom's defence measures – including the TIM bid – it has turned the guns back on its opponent.

The worry for Telecom is that shareholders seem indifferent to its defence strategy. Prior to Olivetti's bid yesterday, the shares actually fell, suggesting concern about what would happen if Olivetti folded its tents. Part of the problem is the complexity of the defence. There is also a question of credibility for Mr Bernabe. Having rubbished Olivetti's proposal to leverage up Telecom, he now finds himself advocating that the company assumes a similar level of borrowings.

However, Olivetti's bid does not look like a knockout blow. On a sum of the parts valuation, Telecom could be worth up to €17 a share. Then again, if Mr Bernabe wants to hold on to his company, he must do a better job at explaining the various elements of his defence. More financial engineering is unlikely to win the day.

## UK gilts

Gladstone would have been envious. Index-linked gilts now offer a real yield of 1⅞ per cent. According to Lombard Street Research, that is a lower yield than Consols ever achieved during 1756-1914, when prices may have fluctuated from year to year but barely rose over the longer term. In short, even the sound Budgets and stable currency of the Victorians did not allow them to borrow money as cheaply as Gordon Brown, UK finance minister!

Such low yields owe something to Mr Brown's Gladstonian prudence but more to the structure of the pension industry, where a combination of maturing funds and the strictures of the Minimum Funding Requirement are making managers desperate buyers of gilts. The same distortion can be seen at the long end of the yield curve where the UK can borrow money 50 basis points more cheaply than Germany.

It would seem sensible, therefore, for the UK government to issue lots of index-linked and 30-year bonds. Sadly life is not that easy. Earlier moves towards transparency mean that the Debt Management Office indicates both the annual schedule of index-linked issues and the quarterly auction programme in advance. In any case, the need to maintain an orderly and liquid market prohibits excessive issuance in any one sector.

Two consequences follow: index-linked and long-dated yields will probably stay low for a while and relative valuation measures based on those yields will give support to UK shares.

# Insurers and brokers to set up e-commerce network

**Risk-trading electronic link aims to counter squeeze on margins**

By Andrew Bolger, Insurance Correspondent

Many of the the world's biggest insurance companies and brokers are to create a global e-commerce network for trading risks among themselves in an effort to counter a vicious squeeze on margins.

A co-operative based in Brussels, London and New York will combine the activities of three leading industry networks – Rinet, the Brussels-based organisation that links continental European reinsurers; Win, the global organisation owned by the world's four largest insurance brokers; and Limnet, which links up the London insurance market.

Premiums charged by insurers and reinsurers have been under pressure in recent years as an increasing number of corporate customers have decided that frequently occurring and relatively predictable risks can be more cheaply retained in-house. Industry analysts also believe that up to 50 per cent of premium payments can be consumed by so-called "frictional costs" – commission and administration charges.

Previous attempts to link insurers electronically – including Rinet, Win and Limnet – have suffered from the industry's fragmentation. A negligible proportion of the industry's multi billion-dollar business is currently placed electronically.

However, industry leaders believe that the recent trend towards the consolidation and globalisation of insurance has given them an opportunity to strip away barriers to the widespread use of e-commerce.

It is difficult to quantify the possible savings that could be achieved by using e-commerce, but a report by the management consultants Coopers & Lybrand, now part of PwC, estimated the London insurance market's annual administration costs of £1bn could be cut by about a third.

The new organisation is the result of work carried out by a convergence steering committee set up last year, plus discussions with more than 70 broking and underwriting firms throughout Europe and the US. Organisations represented on the steering committee included Marsh & McLennan and its biggest rival, Aon; Lloyd's of London; Allianz, the German-based insurer; Generali of Italy; Swiss Re and Munich Re.

The new organisation, yet to be named, will begin operating on June 1. Its chief executive designate is Kevin Ashby, current chief executive of Limnet. There will be a broad-based advisory board and a separate executive board which will initially have equal representation from brokers and underwriters. For its first year, the organisation will be chaired by Rob White-Cooper, a senior executive with Marsh & McLennan, the world's largest insurance broker.

It will promote the development of common technical standards and accredit third-party suppliers, rather than invest directly in the development of its own products. It hopes to develop revenue-generating activities, such as endorsement and accreditation, that will eventually reduce its dependence on membership fees.

Dieter Losse, chairman of Limnet, said: "This is a very important step forward and will provide an important focal point for e-commerce – it is most welcome and for many it is long overdue."

# Switch of support boosts Thai candidate's bid for WTO job

By Guy de Jonquières

Supachai Panitchpakdi, Thailand's deputy prime minister, appeared last night to have achieved a decisive lead in the race to head the World Trade Organisation after all European Union members except Sweden swung behind his candidacy.

The surprise decision was announced by Joschka Fischer, Germany's foreign minister, at the end of a meeting of EU and Asian foreign ministers in Berlin.

Previously, Germany and six other EU members had supported Mike Moore, a former New Zealand prime minister, who is the only other candidate left in the race. Seven EU governments had supported Mr Supachai, while France was undecided.

The overwhelming switch by EU governments in favour of Mr Supachai seems likely to consolidate the small lead the Thai candidate enjoyed among the WTO's 134 members. He has solid support in Asia, led by Japan, and some backing from most other parts of the world.

Mr Moore is still supported by the US, many Latin American countries and parts of Africa and the Caribbean. However, Washington has indicated that it would not veto Mr Supachai if a strong consensus emerged in his favour.

WTO members, which have been seeking since October to agree a successor to Renato Ruggiero as the organisation's director-general, aim to reach a decision by tomorrow.

The new appointee will take office at the beginning of May and will play a central role in preparing for the WTO's ministerial meeting in Seattle late this year, which is expected to launch a new trade liberalisation round.

Mr Fischer is said to have set the EU bandwagon rolling in favour of Mr Supachai when he told yesterday's meeting that Germany was prepared to support his candidacy if other governments did also.

Swedish officials expressed disappointment at the meeting's outcome and said the decision might have gone differently if it had been left to trade, rather than foreign, ministers. They said Sweden had not yet decided whether to continue supporting Mr Moore.

Originally, there were four candidates to succeed Mr Ruggiero, but Roy MacLaren of Canada and Hassan Abuyoub of Morocco were excluded after failing to gather sufficient backing.

Until now, every head of the WTO and the General Agreement on Tariffs and Trade, its predecessor, has been a European. But the EU agreed this time not to field a European candidate.

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Former US president Jimmy Carter (left), on his first visit to Taiwan, meets vice-president Lien Chan in Taipei. Mr Carter cut Washington's ties to the island 20 years ago so the US could recognise China. Reuters

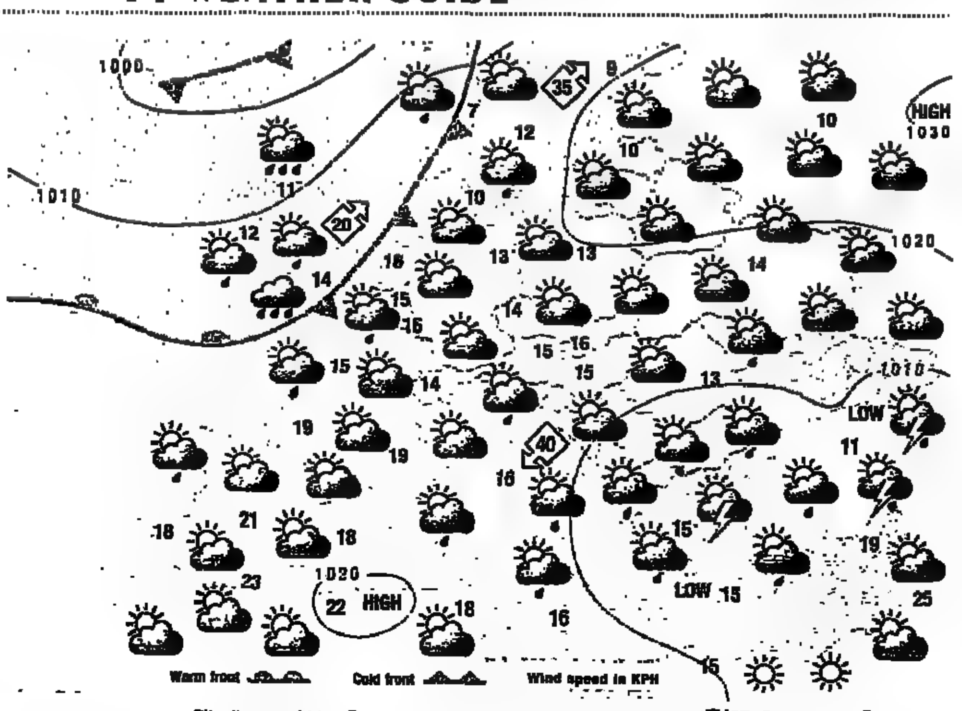
FT WEATHER GUIDE

## Europe today

Scandinavia will have a dry day with patchy cloud and sun apart from showers near the Norwegian coast. Brittany, the Channel coast and the Low countries will have outbreaks of rain. The rest of France and central Europe will be dry with sun. North-western Spain will have showers at times, and southern Italy, Malta and Sicily will also have a mixture of sun and showers. It will be a very showery day across Greece and the Greek islands including Crete and Cyprus.

## Five-day forecast

The thundery weather in the eastern Mediterranean will start to move away. There will be some showers in Cyprus. Rain or showers will also affect Spain and western France on Thursday and Friday. Much of Europe this week will be settled with dry weather.




Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

Maximum Celsius

| | | |
|---|---|---|
| Abu Dhabi | Sun | 31 |
| Accra | Fair | 33 |
| Algiers | Sun | 22 |
| Amsterdam | Shower | 15 |
| Athens | Thunder | 15 |
| Atlanta | Cloudy | 18 |
| B. Aires | Shower | 22 |
| B.ham | Rain | 12 |
| Bangkok | Fair | 38 |
| Barcelona | Sun | 17 |
| Beijing | Fair | [illegible] |
| Belfast | Fair | 11 |
| Belgrade | Fair | 16 |
| Berlin | Fair | 13 |
| Bermuda | Fair | [illegible] |
| Bogota | Fair | 19 |
| Bombay | Sun | 33 |
| Brussels | Shower | 15 |
| Budapest | Fair | 16 |
| C.hagen | Fair | 10 |
| Cairo | Sun | 28 |
| Caracas | Fair | 30 |
| Cardiff | Shower | 11 |
| Casablanca | Fair | 21 |
| Chicago | Sun | 20 |
| Cologne | Fair | 17 |
| Dakar | Sun | 23 |
| Dallas | Shower | 20 |
| Delhi | Sun | 38 |
| Dubai | Sun | 30 |
| Dublin | Fair | 12 |
| Dubrovnik | Fair | 17 |
| Edinburgh | Shower | 11 |
| Faro | Fair | 19 |
| Frankfurt | Fair | 17 |
| Geneva | Sun | 14 |
| Gibraltar | Sun | 20 |
| Glasgow | Shower | 11 |
| Hamburg | Fair | 15 |
| Helsinki | Sun | 9 |
| Hong Kong | Cloudy | 22 |
| Honolulu | Sun | 28 |
| Istanbul | Fair | 10 |
| Jakarta | Fair | 32 |
| Jersey | Rain | 12 |
| Johannesburg | Fair | 22 |
| Karachi | Fair | 33 |
| Kuwait | Sun | 30 |
| L. Angeles | Sun | 15 |
| Las Palmas | Fair | 21 |
| Lima | Fair | 26 |
| Lisbon | Fair | 18 |
| London | Rain | 14 |
| Lux.bourg | Sun | 16 |
| Lyon | Fair | 17 |
| Madeira | Fair | 19 |
| Madrid | Sun | 21 |
| Majorca | Sun | 18 |
| Malta | Shower | 18 |
| Manchester | Shower | 12 |
| Manila | Fair | 32 |
| Melbourne | Shower | 20 |
| Mexico City | Sun | 22 |
| Miami | Fair | 27 |
| Milan | Sun | 18 |
| Montreal | Shower | 5 |
| Moscow | Sun | 10 |
| Munich | Cloudy | 14 |
| Nairobi | Fair | 27 |
| Naples | Fair | 17 |
| Nassau | Sun | 28 |
| New York | Fair | 15 |
| Nice | Sun | 19 |
| Nicosia | Thunder | 19 |
| Oslo | Drzzl | 7 |
| Paris | Cloudy | 15 |
| Perth | Sun | 25 |
| Prague | Cloudy | 14 |
| Rangoon | Sun | 36 |
| Reykjavik | Fair | -2 |
| Rio | Shower | 32 |
| Rome | Fair | 16 |
| S. Frsco | Shower | 15 |
| Seoul | Fair | 13 |
| Singapore | Fair | 32 |
| Stockholm | Sun | 11 |
| Strasbourg | Fair | 16 |
| Sydney | Fair | 24 |
| Tangier | Sun | 21 |
| Tel Aviv | Fair | 25 |
| Tokyo | Fair | 15 |
| Toronto | Sun | 11 |
| Vancouver | Shower | 9 |
| Venice | Sun | 17 |
| Vienna | Fair | 15 |
| Warsaw | Fair | 16 |
| Washington | Fair | 18 |
| Wellington | Fair | 22 |
| Winnipeg | Cloudy | 12 |
| Zurich | Fair | 15 |

FINANCIAL TIMES
# COMPANIES & MARKETS
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TUESDAY MARCH 30 1999



## INSIDE



## COMPANIES IN THIS ISSUE



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## MARKET STATISTICS



# Nissan net debt just short of $20bn

## Renault reveals worse figures than previously disclosed

By Alexandra Harney in Tokyo

Nissan Motor has net debts of $19.9bn – $2.2bn more than the Japanese carmaker, in which Renault plans to buy a controlling stake, had originally disclosed.

The size of the debts came as further confirmation of the scale of Nissan's problems, the result of an ambitious expansion fuelled by easily-available loans.

The figure has been swelled by off-balance sheet debts worth $3.5bn, including liabilities in non-consolidated subsidiaries and financial leases. If debts from financing units are included, Nissan owes its creditors $34.5bn. On Saturday Renault announced it had agreed to spend Y643bn ($5.4bn) on a 35 per cent controlling stake in Nissan, its engine and truck arm and its European financial subsidiaries.

The debt figures were released by Renault in a presentation to analysts and investors in Tokyo yesterday. It was the first time Nissan's financial situation had been evaluated in line with international accounting standards.

The announcement dispelled uncertainty over the scale of the liabilities. Shares in Renault rose nearly 3 per cent to close at €35 ($38.50), while Nissan climbed Y3 to end the day at Y468. Renault's calculations confirmed suspicions that Nissan has sizeable debts in its subsidiaries and dealership network. Liabilities at Nissan Diesel, the truck and engine unit, are $4.2bn. Debts at non-consolidated dealerships amount to $3.3bn.

Analysts said the figures appeared accurate, and were hardly surprising given Nissan's earlier warnings. However, they said Renault's estimates did not include liabilities from Nissan's pension fund shortfall. Peter Boardman, analyst at Warburg Dillon Read, estimated that Nissan's pension reserves were underfunded by at least Y300bn ($2.5bn). This is disturbing as Nissan, like other Japanese companies, will have to record this shortfall as a liability on its balance sheet when consolidated accounting rules come in next year.

Politicians from the Liberal Democratic and Liberal parties are debating ways to allow companies to avoid recording these obligations on their balance sheets and make up the shortfall by contributing equity holdings to their pension funds.

Renault calculated that the $5.4bn capital injection and restructuring of $1.8bn worth of Nissan's debt would lower Nissan's debt-to-equity ratio to 1.6 times, according to Japanese accounting principles. But proforma calculations, which Nissan argued were more accurate, indicated the debt-to-equity ratio would fall to 0.7 as of this month.

The French group expects Nissan's $19.9bn worth of net liabilities to drop to $6.2bn by 2002, through asset sales, inventory reductions, and synergy gains from the strategic alliance. The synergy effects would be worth $3.3bn between 2000 and 2002, the companies said.

Yoshikazu Hanawa, Nissan president, said the carmaker had made rapid progress in its restructuring programme.

# Computer Associates in $3.5bn merger with rival

By Roger Taylor in San Francisco

Computer Associates, the US software group, announced the biggest merger in the software industry's history yesterday by agreeing a $3.5bn takeover of rival Platinum Technology.

Platinum's shares jumped 151 per cent to $24⅜ in response to the offer of $29.95 a share. The shares had closed at $9¾ on Friday.

Not only is Computer Associates paying a premium of nearly 300 per cent to Platinum's pre-bid market value, it is paying in cash, funding the entire deal though a $4.5bn credit facility. Credit Suisse First Boston, the investment bank which advised Platinum, is sole underwriter.

Platinum and Computer Associates have built up a range of business management software products, often by acquiring smaller companies.

Platinum provides tools for database management, updating and managing software in businesses, data warehousing and knowledge management.

Computer Associates also offers database and systems management tools. However, the company said yesterday that there was little overlap.

Computer Associates highlighted two other aspects of the deal. First, Platinum has a substantial consulting and services business, with strengths in Europe, which will complement its Global Professional Services division. Second, both have expertise in 3D visualisation software. By combining, Computer Associates hopes to become a leader in this field.

Platinum has achieved much stronger growth over the past year. It had revenues of $941m in 1998 compared with $625m the year before from which it made 82 cents of operating income per share.

In contrast, Computer Associates has had flat sales with revenues of about $1.4bn in its last quarter compared with $1.3bn in the same period of the previous year.

The company, which had earnings of $2.18 per share on revenues of $4.7bn in the year to March 1998, said the Platinum deal would add about 25c per share to earnings in the first year. However, the shares lost about 3 per cent, dropping $1¼ to $32⅞ compared with a high over the past year of $62.

# Central bank acts in French takeover battle

By Samer Iskandar and Robert Graham

The French central bank issued a highly unusual plea yesterday for the protagonists in a three-way hostile takeover battle to down arms and "establish a dialogue".

The move, by Jean-Claude Trichet, governor of the Bank of France, follows the approval by regulators of the twin unsolicited bids by Banque Nationale de Paris for Société Générale and Paribas, the two banks planning their own agreed merger.

It underlined the concerns of the central bank and the Socialist-led Jospin government that the battle could open the door to a foreign bid for any one of the three banks.

Citing "the higher interest of the banking community", Mr Trichet said he "wished that the establishments concerned would reflect and engage in a dialogue among themselves with a view to reaching a solution which would fully respect each house's moral and financial interests".

Mr Trichet has spent the better part of the past week vainly trying to convince the heads of the three banks to end their hostilities.

Yesterday, André Lévy-Lang, chairman of Paribas, and Daniel Bouton, head of SocGen, were insisting on their own amicable merger and rejecting the advances of Michel Pébereau, head of BNP.

Bank of France officials said a deal between the three banks was still possible. However, Mr Trichet's statement followed a decision yesterday by the credit institutions committee (CECEI), which formally approved BNP's unsolicited bids for Paribas and SocGen.

The proposed deals were also cleared yesterday by the Commission des Opérations de Bourse, the stock market watchdog.

The CECEI, chaired by Hervé Hannoun, deputy governor of the Bank of France, which also includes Jean Lemierre, director-general of the treasury, among its members, was due to meet last week. But the complexity of the approval, plus efforts by Mr Trichet to convince the banks to join forces, held back a decision.

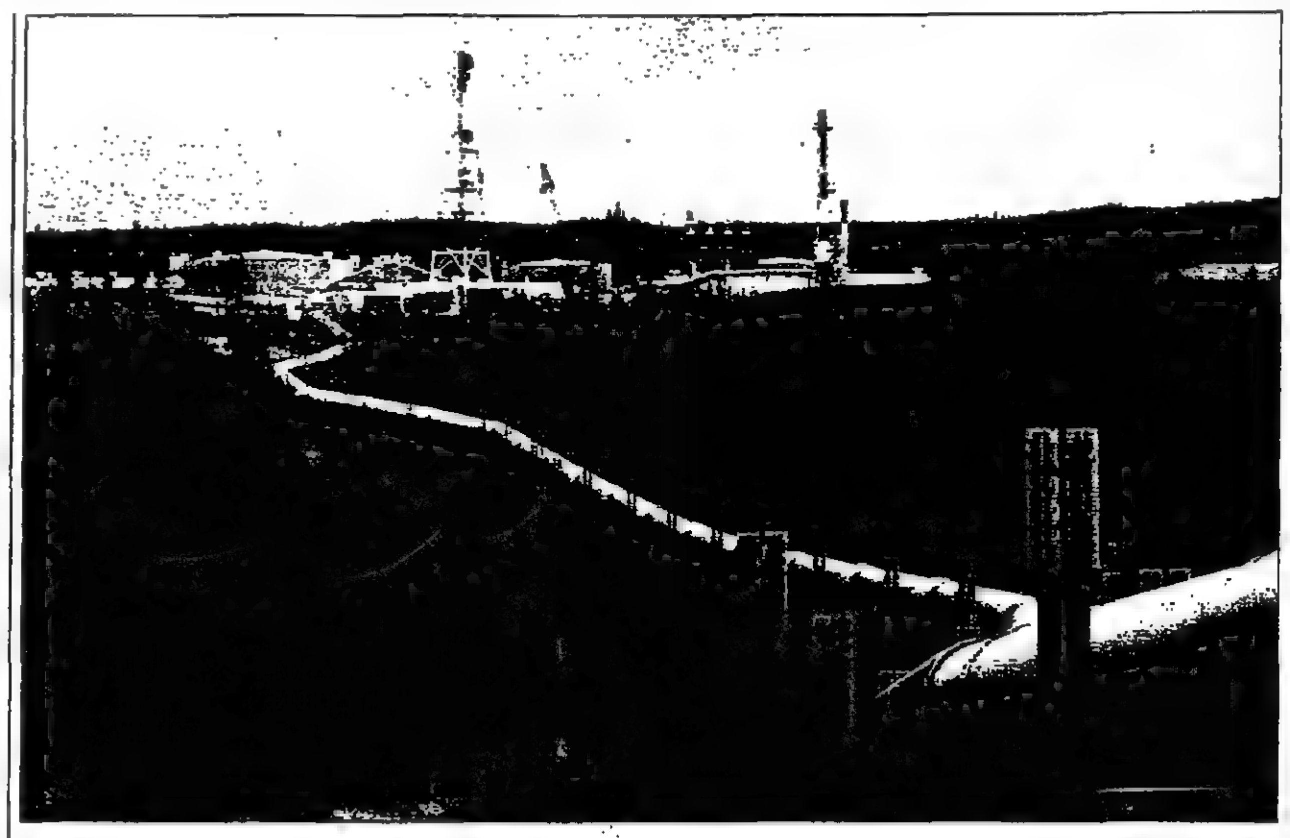
Yesterday's session of the CECEI is understood to have been one of the longest ever and accepted the first hostile bid in more than a decade in French banking. Guarantees by BNP on jobs were accepted at face value, even though bank unions continue to warn of potential losses.

Bankers said the decision was an implicit admission in the current climate of consolidation in the European banking business that France could no longer close the door tight on takeover bids from foreign institutions.

Last week, the Conseil des Marchés Financiers, the financial markets regulator, cleared the twin proposals.

According to French regulations, the three offers – BNP's respective bids for SocGen and Paribas, and SocGen's bid for Paribas – will run in parallel for 35 business days, during which shareholders will have to choose.

However, a lawsuit launched last week by SocGen and Paribas, challenging the CMF's decision to allow BNP's offers to proceed, could interfere with the process.



# BP confirms Atlantic Richfield talks

By Robert Corzine in London and Andrew Edgecliffe-Johnson in New York

BP Amoco, the UK's biggest company, yesterday confirmed it was in takeover talks with Atlantic Richfield, the Los Angeles-based oil group also known as Arco.

BP Amoco warned the talks might not lead to a merger. However an announcement is expected on Wednesday or Thursday, after the boards of the companies have considered the terms of an all-stock deal valuing Arco at around $25bn. The news sent BP Amoco shares up 3.9 per cent - or 40 pence a share - to close at £10.77.

By midday in New York Arco's stock had jumped $6$\frac{11}{16}$, or just over 10 per cent, to $72. Analysts pointed out that the mooted offer price of $77 per share would be 19 per cent above Arco's price at the end of last week but below its 12-month peak of $82¼.

Arco's shares have suffered from the company's patchy investment record. Wall Street was unimpressed by the timing of last year's acquisition of Union Texas, an independent explorer. Analysts had criticised it for being too slow to make its international operations profitable.

BP Amoco yesterday moved to reassure the state of Alaska of the benefits of a link-up. It and Arco jointly operate the giant oilfield at Prudhoe Bay, whose 800-mile pipeline to Valdez is pictured above. Dick Oliver, chief executive of BP Amoco's exploration division, is briefing state officials today.

Jay Wilson, analyst at J.P. Morgan, said he could not fault the strategic logic. He added, however: "The price and accounting issues are the interesting thing."

If BP Amoco uses purchase accounting for a $25bn bid, the transaction could dilute its earnings by 7 per cent next year, he said. If such a deal were treated as a pooling of interests it could enhance earnings by 3 per cent.

US analysts did not expect bids from rivals such as Chevron or Texaco.

BP Amoco is advised by Morgan Stanley, while Arco is represented by Goldman Sachs and Salomon Smith Barney.

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# Merger between Alusuisse and Viag collapses

By Tony Barber in Frankfurt and William Hall in Zurich

One of Europe's biggest planned cross-border mergers collapsed last night after German conglomerate Viag said disagreements with Swiss group Alusuisse Lonza over terms meant their deal could not go ahead.

After a meeting of its supervisory board in Munich, Viag said it would insist that its shareholders should own at least 67.5 per cent of the merged group rather than 65 per cent as envisaged last November when it struck the deal with Alusuisse, an aluminium packaging and chemicals group.

Alusuisse said last night it had decided not to continue talks with Viag on the €20.2bn ($21.5bn) merger using the proposed structure, signalling the death of the deal.

"Both groups continue to believe in the strategic value of the combination and [Alusuisse] regrets the technical obstacle preventing its execution," the company said.

Earlier, Martin Ebner, the Swiss group's chairman designate, who controls almost 22 per cent of Alusuisse, had predicted the merger would collapse if Viag tried to alter its terms. Commenting on Viag's new offer to Alusuisse of 32.5 per cent of the merged group's shares, he said: "It isn't in the interests of the [Swiss] shareholders."

Viag appeared to be wooing its shareholders last night when it unexpectedly announced that it planned to raise its 1998 dividend by DM2 to DM16 (€8.2, $8.8).

The wrangling over the terms underlines how much harder such large, cross-border deals are to arrange than mergers between companies from the same country. Although the merger appears to have broken down because of a dispute over the respective valuations of the companies, the breakdown also reflects serious differences in management styles.

Matters came to a head on Sunday when Theodor Tschopp, an Alusuisse veteran who was to have been chairman of the enlarged group, resigned as chairman and was replaced by Mr Ebner, Switzerland's best-known shareholder activist. Mr Ebner is understood to have wanted to give even greater power to Sergio Marchionne, Alusuisse's chief executive, in the running of the enlarged group.

Simon Marshall-Lockyer of analysts BT Alex Brown said that the stock market would be glad that the deal had been called off. Both sides had found the merger difficult to justify and the share prices of both companies had fallen by around 10 per cent since it was announced last November.

News of the breakdown in merger talks came after the close of Frankfurt trading. But investors had already driven the German company's shares down by more than 7 per cent to €515. Alusuisse's shares closed 2.3 per cent higher at SFr1,660.

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**GREECE** PRIVATE BANK TO PAY $912M FOR MAJORITY HOLDING IN COUNTRY'S LARGEST PRIVATISATION SALE

# Alpha Credit to take control of Ionian Bank

**By Kerin Hope in Athens**

Alpha Credit Bank, Greece's leading private bank, is to pay Dr276bn ($912.4m) for a majority stake in state-controlled Ionian Bank in the country's biggest privatisation sale so far.

The acquisition will increase Alpha Credit's market share in Greece from 13 per cent to 20 per cent and give a significant boost to its competitiveness ahead of Greece's probable entry to the euro-zone in 2001.

Alpha Credit outbid Piraeus Bank's offer of Dr254bn for a 51 per cent stake. ESG Eurobank, the other shortlisted bidder, failed to submit a binding offer.

The proceeds from the sale will be used to strengthen the balance sheet of Commercial Bank, Ionian's struggling parent group. Greece's socialist government is committed to selling a majority holding in Commercial Bank next year under a structural reform programme agreed with the European Union.

Alpha Credit was advised by Credit Suisse First Boston and Alpha Finance, the group's investment banking arm. J.P. Morgan advised Commercial Bank.

The outcome marks a setback for Piraeus Bank, a small but aggressive Greek bank which raised Dr240bn in fresh capital to finance the bid for Ionian. In a last ditch attempt to capture Ionian, Piraeus yesterday increased its offer to Dr295bn. A government official said the bid was immediately rejected because it violated the sale terms.

Piraeus Bank's share price yesterday fell eight per cent, the limit permitted by the Athens stock exchange, to close at Dr9,460. Alpha Credit's share jumped eight per cent to Dr40,800.

Analysts said that Alpha Credit paid a high premium to secure its leading position as consolidation picks up speed in Greece's banking sector.

Ionian has a bigger branch network than Alpha Credit but lost a sizeable percentage of its lending business last year after a six-week strike by employees opposed to its privatisation. Alpha Credit said its bid "was at the higher end of the range" and it would seek shareholders approval for a Dr120bn capital increase to help finance the acquisition.

It said a full merger with Ionian was planned to complete the group's distribution network in mainland Greece and the Aegean islands.

The acquisition marks a change in strategy by Alpha Credit, which decided against bidding when a majority stake in Ionian was first offered last year through a tender sale on the Athens stock exchange. That deal collapsed after the government rejected the only bid of Dr138bn as too low.

An Alpha official said: "After an exceptionally profitable year in 1998 and a very strong first quarter we decided we could afford to enter a bidding process."

# Russia to sell holding in power company

**By Andrew Jack in Moscow**

Russia's last significant electricity company in state hands could be on the road to partial privatisation as soon as this April, according to advisers close to the company.

Under the terms being discussed, a significant minority stake in Tatenergo, the monopolistic power producer and distributor in the semi-autonomous republic of Tatarstan, would be transferred to companies and employees before the summer.

A stumbling block was removed last week after Anatoli Chubais, head of Unified Energy Systems (UES), Russia's principal power group, agreed to offer between 1 and 2 per cent of the shares of his company for 10 per cent of Tatenergo.

UES would later swap its 10 per cent stake in Tatenergo for 25 per cent plus one share in each of two subsidiaries when they were subsequently hived off. The two units are the Tatarstan's high voltage electricity transmission operator and the Nizhnekamsk hydro-electric generation plant.

Gazprom, Russia's gas giant, is set to write off Tatenergo's debts in exchange for a 10 per cent stake in the company, while managers and staff will receive about 20 per cent of the shares – partly to reduce substantial wage arrears.

The state, which will initially retain up to 60 per cent of the shares, will assume the money owed to Tatenergo from Kamaz, the giant and financially troubled truck manufacturer.

Advisers hope that in a second stage a strategic investor will take a stake of up to 25 per cent, while 5 per cent may be made available to others through the national RTS stock exchange.

As part of a special autonomy agreement between the Russian Federation and Tatarstan agreed in 1994 and renewed this month, the republic kept all of its property rather than handing it over to the decisions of politicians in Moscow. President Mintimer Shaimiev's policy of a "soft entry into the market" ensured it remained in state hands while its counterparts in other parts of Russia were sold.

However, analysts expressed doubt yesterday about whether the privatisation would go ahead and would prove attractive. "Investors are looking for liquidity and disclosure, but Tatenergo has neither," said Alison Graham with United Financial Group in Moscow.

Tatenergo, which produced 20,867m kilowatt hours of electricity last year, reported losses in 1998 of Rbs127m ($4.8m). An adviser to the company said its assets were worth Rbs15bn.

# Oilmen strike a rich source of optimism

PGS sees earnings soaring despite the state of the oil market, writes **Valeria Sköld**

Optimism is a rare commodity in the oil business these days. But Reidar Michaelsen and Bjarte Bruheim, chief executive and chief operating officer of the world's largest offshore seismic data company, are two of the most optimistic men in the oil and gas business.

The pair predict that Norwegian-listed Petroleum Geo-Services, the tenth largest company in value on the Oslo bourse, will see a jump of up to 27 per cent in Ebitda pre-tax earnings before interest, tax, depreciation and amortisation to nearly $600m this year.

The rosy forecast comes despite PGS's expectations of a 20 per cent fall in global exploration and production expenditure to $71bn among the top 16 oil companies.

There has also been a 9 per cent fall in total seismic activity this year amid fears of a continued low oil price – although crude oil prices have this month improved slightly after the world's main oil producers agreed to cut production.

PGS is betting that oil companies will need its technology more than ever to help them reduce their drilling costs and produce more cheaply.

The company's vessels traverse the seas, recording sound waves over offshore exploration acreage and processing the data that helps the oil industry find petroleum resources.

It can also provide reservoir services that show how oil floats in a reservoir thousands of metres below the seabed, using a process similar to that used to produce ultrasound pictures of an unborn baby.

"Even hospitals in stress situations don't stop X-raying before they operate," said Mr Michaelsen. "We have to be optimistic."

His colleague Mr Bruheim points out that oil companies do not wait for the oil price to rise before conducting seismic research. "They need to pick acreage and leases now," he said.

The company is also hoping that increased revenues from its newly acquired floating production and production services business will make up for the seismic slowdown.

PGS predicts seismics will contribute 48 per cent of its revenues over the next two years, down from 76 per cent last year. At the same time, revenues from its production services business will increase this year to 39 per cent from 18 per cent, with a predicted $160m in Ebitda and revenues of $420m.

However analysts question the company's optimism when most oil companies are either cash strapped because of low oil prices or preoccupied with the global consolidation sweeping the industry.

Analysts at Merrill Lynch, for example, foresee a harsher fall in seismic activity of 22 per cent.

One Oslo analyst with a reduce recommendation on PGS said: "Our outlook [for the industry] is basically the same, but we are a bit concerned the competitive situation in 1999 may not be as bright as PGS believes."

Admittedly, PGS is not entirely bullish either. The company has planned a number of cost cutting measures, such as the removal of eight seismic crews representing 300 staff, aimed at saving $140m annually to adjust to the expected decline in seismic activity.

"We're optimistic, but we wouldn't like to be quoted as being completely naive," Mr Michaelsen said. Analysts see the reductions as positive and believe in the long-term potential of the company.

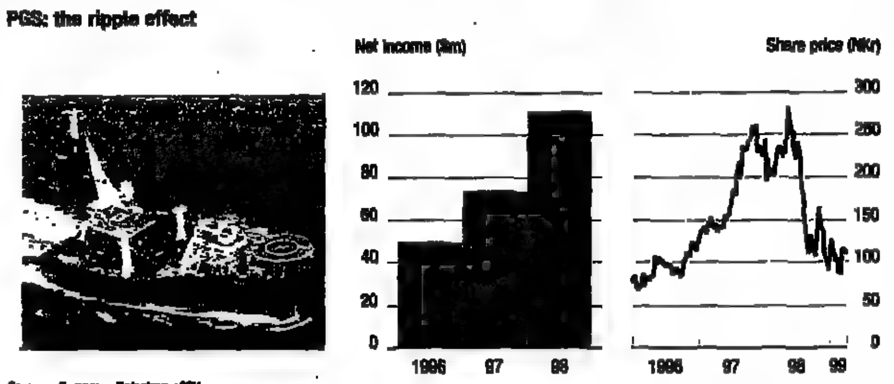
Oslo analysts at Carnegie, a Swedish brokerage house, have upgraded their recommendation to outperform from match and predict the company's share price on the Oslo stock exchange will rise to NKr125 in the next six months because of optimism about future contracts in West Africa and anticipated improvements in the efficiency of PGS's fleet.

The company's shares ended the day on the Oslo stock exchange at NKr114, a rise of NKr on the day.

"It's a large uncertainty in the seismic market and I don't think the whole uncertainty has come across to PGS management," said Eli Setersmoen, an analyst at Orkla Finans in Oslo.

"But if anyone should survive a bloody market, it's them. They have a very focused management and efficient fleet."

**PGS: the ripple effect**




Source: Company; Datastream/ICV

# Teekay to buy Bona and create giant fleet

**By Valeria Sköld in Oslo**

Teekay Shipping, operator of the world's largest fleet of medium-sized oil tankers, yesterday said it would buy Norway's Bona Shipholding for $450m to create a giant shipping fleet three times bigger than its nearest competitor.

The enlarged Teekay, with a market value of $1.6bn, will broaden its fleet to 76 vessels and widen its coverage to meet the increasing global demands of merging oil clients.

The consolidation in the oil tanker business follows last week's deal between Scandinavian shipping companies Wilhelm Wilhelmsen and Wallenius Lines, which combined to form the world's largest car shipping company, similarly to meet the demands of a sector in the throes of consolidation.

Teekay, based in the Bahamas, expects its deal with Bona to improve its earnings per share and result in $10m in annual cost savings, once the merger is completed in June.

The integration of the two companies' fleets, focused mainly on Aframax tankers, cuts overlapping overhead costs, improves economies of scale and purchasing power. Teekay is the leading tank operator in terms of traffic in the Indian and Pacific oceans. Bona concentrates on the Atlantic ocean.

"We've seen an excellent fit for a long time," said Bjorn Moller, Teekay chief executive. "It's an ideal time to get together when our customers are doing the same."

Teekay will pay $136m for 18.9m outstanding shares in Bona – which will be delisted from the Oslo stock exchange – via $7 or 0.485 Teekay shares per Bona share. Teekay will also assume $314m in debt, valuing the transaction at $450m, or a 12 per cent premium to Bona's market value on March 26.

Bona shares surged 41.7 per cent on the Oslo stock exchange, closing up NKr15 to NKr51.

The merger has secured commitments from Bona's largest shareholders for more than the necessary 75 per cent majority required for the deal. Goldman Sachs advised Teekay and Warburg Dillon Read advised Bona.

# J Lauritzen shares surge as it sells 50% Sabroe stake to York

**By Clare MacCarthy in Copenhagen**

Shares in the Danish shipping and industrial group J. Lauritzen Holding surged yesterday after it said it was selling its 50 per cent stake in Sabroe Refrigeration to York International of the US.

Lauritzen shares closed up DKr74 at DKr524 on the Copenhagen stock exchange yesterday.

York International, which has interests in refrigeration, heating, air conditioning and ventilation, will pay $586m – including debt of $172m – for Sabroe, in a deal that the partners say will create the world's largest supplier of machine refrigeration products.

The seller of the other 50 per cent stake is EQT Scandinavia, a Sweden-based investment company.

Lauritzen had come under increasing pressure to streamline its holdings after its Danyard shipyard swung into heavy losses in the mid-1990s.

Before the sale, Lauritzen had been preparing Sabroe for an independent stock exchange listing but earlier this month announced the postponement of the IPO.

While the sale to York caught the market by surprise, analysts welcomed the deal. "This is absolutely positive news for Lauritzen. They've got a very good price compared to what they would have got on the stock market," an analyst with a leading Danish bank said.

Copenhagen stocks, particularly "small-caps", had underperformed for weeks so a straight sale to York made perfect sense and came at just the right time for Lauritzen, he added.

Michael Christiansen, Lauritzen board chairman, called the deal the right step for the company and its shareholders. "While we considered a public offering for Sabroe, the opportunity to combine Sabroe with York in this way, at a fair price, is highly favourable for our shareholders, employees and customers," he said.

Sabroe has a turnover of about DKr4.3bn ($621m) and 4,400 employees in 40 subsidiaries world-wide. Based on 1998 results for both Sabroe and York, total pro forma annual revenues for the Refrigeration Products Group of York was about $1.2bn.

# Schindler increases market share

**By William Hall in Lucerne**

Schindler, the world's second biggest manufacturer of elevators and escalators, increased its market share last year despite an 11 per cent fall in the estimated world market, to SFr14.5bn ($9.8bn).

Schindler, which reported a double digit rise in profits earlier in the month, said that revenues from escalators and elevators rose by 2.8 per cent, to SFr5.3bn, in 1998. Schindler rolled out several new products last year which helped offset the decline in Asia, which had accounted for 56 per cent of the world market in 1998.

Schindler estimates that the total number of escalators and elevators sold in the world fell 2.9 per cent, to 235,800 in 1998. The fall in value reflects increased price competition and the move towards cheaper standardised equipment.

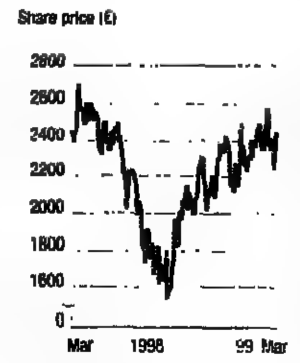
Schindler estimates that the Asian market fell 20 per cent in value terms last year and Latin America fell 10 per cent. This was partially offset by double digit growth in North America and single digit growth in Europe, which accounts for nearly half of Schindler's sales.

Schindler estimates that it accounted for over 4,000 of the 16,000 escalators sold last year. Its 25 per cent market share compares with Otis's 18 per cent, Mitsubishi's 13 per cent, Kone's 9 per cent, and Thyssen's 8 per cent.

The group has been able to boost its operating margins from 2.3 per cent in 1996 to 4 per cent in 1998 through cost cutting and wants to achieve a 7 per cent margin in the medium term.

**Schindler**

Share price (f)




Source: Datastream/ICV

# NEWS DIGEST

## OIL

### Brussels approves merger of Total and PetroFina

The European Commission yesterday approved the merger of France's Total and Belgium's PetroFina but only after the companies agreed to sell stakes in their petrol storage activities where Brussels detected potential competition problems.

The Commission, which vets all mergers over a certain size in the European Union, said the oil deal would squeeze competition in the market for "non-forecourt sales" of petrol, diesel and heating oil in parts of Northern France. Non-forecourt sales are those made to resellers such as hypermarkets and non-branded petrol stations, or to large end-users such as transport groups and industry. By selling storage depots in the area, the Commission believes alternative suppliers will be able to enter the market for non-forecourt sales.

Part of the merger has been referred to the French competition authorities which want to examine the effects of the operation on petroleum storage in south-west France. However, the deal can go ahead before the French authorities complete their probe. **Emma Tucker, Brussels**

■ The European Commission yesterday also approved the SKr50bn ($6bn) acquisition of Volvo Cars by Ford of the US, the world's second largest carmaker. Although the Commission said Ford's acquisition of the Swedish group's car division would lead to enlarged market shares in executive and sports cars, it ruled that the overlap was unlikely to obstruct competition. **Tim Burt, Stockholm**

## TRUCKS AND ENGINES

### Navistar enters joint venture

Navistar, the US truck and engines manufacturer, is to join forces with Siemens Automotive, part of the German electrical and electronic engineering group, in a $100m joint venture which will develop and make "next generation" diesel fuel injectors.

Siemens Automotive, one of the big "tier one" suppliers to the automotive industry, will have a 51 per cent interest in the joint venture, which will be known as Siemens Diesel Systems Technology and is likely to employ around 500 people. The total capital investment in the venture is put at around $100m.

The new company will make electronically-controlled low-pressure injectors to be used in diesel fuel systems made by Navistar. Navistar will supply expertise on electro-hydraulic systems, while Siemens will add fuel delivery technology and manufacturing capability at a yet-to-be-determined site in the south-east of the US. The fuel injection system is due to become available for commercial use in the 2002 model year. **Nikki Tait, Chicago**

## IRON ORE PRODUCTION

### Steel output drop hits LKAB

LKAB, Europe's largest iron ore producer, is forecasting its first operating loss since 1982 due to falling European steel production and increased competition from iron ore supplies outside Europe. Prices of its main product, iron ore pellets, have been cut by 14.9 per cent compared with last year, with the price of ore fines, low phosphorous ore in a powder form, down 13.4 per cent.

The company is also predicting that sales of its iron ore products will be below the 20.3m tonnes recorded in 1998. Last year LKAB which is owned by the Swedish state and whose mining and processing activities are based in the north of the country above the Arctic Circle, made a pre-tax profit of SKr960m ($115m) in 1998.

The dual pressure of falling prices and volumes had its roots in the Asian economic crisis, according to Raymond Hedman, company spokesman. "It is very difficult to make forecasts but we are saying that we can't see any sign of any upturn." **Nicholas George, Stockholm**

## ICELAND

### Retailer to come to market

Baugur, Iceland's largest retail chain, is expected to come to the market in Reykjavik later this month with an estimated market capitalisation of $130m-$150m. The retailer, controlling about 40 per cent of the food distribution market in Iceland, will become one of the largest quoted companies on the country's stock exchange.

The company, with annual turnover of $260m and a modest profit last year of $6m, is the latest new listing in Iceland, where as recently as 1990 there was no shareholder activity. In the past nine years, 65 companies have come to the market. Their combined market capitalisation of about $3.2bn is equivalent to 40 per cent of gross domestic product. The Icelandic Investment Bank (IIB) said that figure could grow to 50 per cent of GDP this year. **Tim Burt**

## TYRES AND CABLES

### Pirelli rises despite sales fall

Pirelli, the Italian tyre and cables group, yesterday reported a 4.3 per cent rise in 1998 consolidated net profits to L534bn (€276m, $296m), despite a 5.7 per cent fall in sales to L10.624bn.

Although market conditions would continue to be difficult and highly competitive this year, Pirelli said operating profits were expected to remain "in line" with last year's operating profits of L798bn. Operating profits in 1997 were L760bn. Net financial debt rose from L478bn at the end of 1997 to L513bn at the end of last year reflecting in part the Siemens cables acquisition.

The company's cable division reported a 7.7 per cent rise in 1998 net income to L280bn on lower sales of L5.397bn. The tyre division reported flat net income of L231bn last year on lower sales of L5.218bn.

Pirelli is proposing to increase its dividend by 16.6 per cent to L140 for each ordinary share from L120 last year. **Paul Betts, Milan**

# Telenor-Telia merger moves step closer

**By Tim Burt in Stockholm**

The governments of Sweden and Norway were yesterday understood to be finalising the proposed merger of Telia and Telenor, their respective state-run telephone companies, after resolving some of the management issues that threatened to scupper it.

After almost two months of talks, ministers in Stockholm and Oslo are preparing to unveil a structure for a combined company including the division of senior management roles and the appointment of a new board.

It is hoped that an agreement will be announced before Easter, although neither government would comment in detail yesterday.

Even if the deal is signed this week, it is unlikely that a stock market listing valuing the company at about SKr300bn ($36bn) will take place as soon as expected. Advisers on both sides had hoped for an IPO this summer, but that could now be delayed.

"The whole timetable has been put back," one banker said yesterday. "The introduction to the stock exchange could be pushed into next year."

Officials want to ensure the capital market will react to the structure of the new company, one of northern Europe's largest telecommunications groups.

The deal, originally due to be signed last month, was delayed after differences emerged over management roles and the location of operating subsidiaries.

That prompted claims from Telia managers that the merger risked undervaluing the size and profitability of the Swedish side of the business.

Last year such claims and counter-claims between Telia and Telenor led to the collapse of an earlier merger proposal.

In a bid to avoid similar turmoil this time, the two governments are thought to have deferred decisions on the location of particular divisions and subsidiary headquarters.

"It will be left to senior management rather than politicians to sort this out and the owners realise more time is needed for that," said one official in Norway.

Neither company would comment on reports that the mobile telephone and internet divisions would be based in Sweden, or whether Jan-Ake Kark and Stig-Arne Larsson, Telia's chief executive and finance director respectively, would be named joint deputy chief executives under Tormod Hermansson, chief executive of Telenor.

# Slovnaft searches for strategic partner

**By Robert Anderson in Prague**

Slovnaft, the Slovak oil refiner that has run into financial problems, is to seek a foreign strategic partner after announcing a fall in profits for last year.

Slovnaft, the most highly capitalised stock on the Bratislava stock exchange, is the second big Slovak concern sold to domestic investors that is now having to look for a foreign partner after running into financial problems

The new management of the VSZ steel group, the country's largest company, last week reached a standstill agreement with creditors after defaulting in November. VSZ is looking for a strategic partner and US Steel, which already participates in a joint venture, has ordered an audit ahead of a possible further investment.

Slovnaft yesterday posted unaudited and unconsolidated pre-tax profits of Sk909.6m ($22.25m) for last year compared with Sk3.1bn for 1997. The company blamed the results on the fall in oil prices and the devaluation of the Slovak crown in October for which it has had to make provisions for dollar-denominated loans.

The disappointing results come as Slovnaft is completing a huge investment programme and is facing tough competition from refiners such as OMV of Austria and MOL of Hungary.

The management believes it needs a strategic partner capable of raising the equity. Slovomir Hatina, president, said the management – which owns 54 per cent – had hired Salomon Smith Barney as advisers and may be prepared to lose its majority position.

● SPT Telecom, the Czech fixed-line telecom monopoly, yesterday reported that last year's net profits were stable at Kc6.06bn ($174.09m) as revenues rose 15 per cent to Kc45.89bn, **writes Robert Anderson**. Revenues grew from a large investment in new lines but profits were hit by a 38 per cent increase in payments for traffic from mobile telephone operators and a 32 per cent rise in depreciation.

The company, which will lose its monopoly at the end of next year, is slowing investments and focusing on reducing costs in order to improve profitability. SPT, the most highly capitalised Czech company, is 51 per cent state-owned with 33.5 per cent held by Telsource, a consortium between KPN, the Dutch telecom company, and Swisscom.

هكذا من الأصل

sels approves merger
otal and PetroFina

star enters joint venture

output drop hits LKAB

come to market

despite sales fall

partner

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TELECOMS FINANCE OFFICER QUITS

# Iridium wins time on debt

By Christopher Price

Iridium, the troubled hand-held satellite phone group, has won a 60-day breathing space from its main bankers on debts of $800m.

However, the news was partly overshadowed by the separate announcement of the resignation of Roy Grant, chief financial officer, for "personal reasons". A successor is due to be appointed by Mr Grant's departure in two weeks.

Iridium shares, which came to the Nasdaq stock market at $20 in 1997 and reached more than $72 in the past year, yesterday fell more than 11 per cent in early trading to $19.

Despite this, the backing of its bankers will come as a relief to the company and investors. The $800m of debts were covered by covenants that Iridium should hit certain subscriber and revenue targets by the end of March.

However, the company looked increasingly unlikely to achieve these after a disappointing performance since launching in November. The $5bn Iridium satellite service is the first to enable hand-held mobile phones to be used anywhere in the world.

The covenant targets of 27,000 customers by the end of March are thought to have reached less than half this figure.

The company said it intended to revise both these figures and "request a modification of the minimum revenue and customer level covenants in the secured bank facility once this revision is complete".

Ed Staiano, vice-chairman, said recently he had been confident of a successful outcome to the talks because the banks had been kept informed of the group's difficulties from the outset.

He received a further boost last week when Bob Growney, president and chief operating officer of Motorola, the US telecoms group which founded Iridium and which remains a key investor, said "there was no question of Iridium going under," pledging financial support for the group.

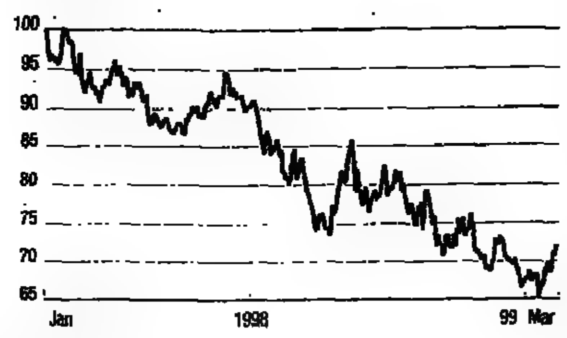
# BP Amoco fits with Arco

## Analysts are upbeat about the potential benefits of a merger for both oil groups

By Andrew Edgecliffe-Johnson in New York

Atlantic Richfield

Share price relative to the S&P Oil sector




Source: Datastream/ICV

In 1968, the newly merged Atlantic Richfield company discovered a 13bn barrel oilfield on Alaska's North Slope. The strike in Prudhoe Bay was the biggest ever in the western hemisphere, and gave Arco the exploration and production clout to balance its strengths in refining and marketing.

More than 30 years later, Arco has been accused of having rested on those laurels. Recent ventures, particularly in the international arena, had absorbed cash and failed to poduce as much profit as had been hoped.

Albert Anton, an oil analyst at Carl H. Pforzheimer in New York, said yesterday: "Arco seems to have drifted in recent years."

That drift was also felt in Arco's stock price. Between October 1997 and early March this year, the shares slid from above $68 to a low of $52¼.

It is unclear whether that drop was what brought Arco into BP Amoco's sights and prompted talks about a $25bn takeover of the seventh largest oil group in the US.

Most analysts agreed yesterday that Arco was in no urgent need of a merger with a larger partner. But, they added, a deal with BP Amoco made strategic sense.

BP Amoco's refining and marketing operations are focused on the east side of the Rocky Mountains, while its Los Angeles-based target is the number one downstream group west of the Rockies.

Jack Aydin, of McDonald & Co Investments, says Arco's overseas investments have been "mediocre at best", but adds that one of Arco's international investments would be attractive to BP Amoco.

The Tangguh development in eastern Indonesia is the third largest hydrocarbon discovery in Arco's history, with more than 13,000bn cu ft of proven and probable natural gas reserves. "If BP Amoco is thinking for the long term, in 50 years that will be worth a lot," says Mr Aydin.

Arco has other international investments, stretching from Algeria to China, but its long-standing Alaskan presence may be the most important factor in the success or failure of a takeover by BP Amoco.

Analysts expect the Alaskan state government to take a close look at the proposed deal, as a combination of BP Amoco and Arco would leave one company in control of nearly 1m of the 1.3m barrels produced in the state each day.

According to Mr Wilson, "what [Alaska] will be concerned about is, are the dollars still going to be spent in Alaska?"

BP Amoco would need to convince the authorities that, despite the likely cost-cutting following a takeover, such a deal would be in the long-term interests of production in the region.

The potential cost savings from sharing facilities in Alaska and cutting costs elsewhere are estimated at up to $1bn, but Arco has made some progress towards cutting its own cost base overseas.

If analysts generally agree that the deal makes strategic sense, they are less sure of the financial logic. Last year, Arco's sales dropped from $14.3bn to $10.3bn, while net income, which was distorted by write-offs and disposal gains, fell from $1.77bn to $452m.

Nonetheless, several analysts believe Arco could hold out for more than $25bn. With no rival bidders on the horizon yet, however, BP Amoco could represent Arco's richest strike to date.

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# Goldman buys 22% stake in Wit Capital

By William Lewis in New York

Goldman Sachs, the US-based investment bank that is about to become a public company, yesterday announced the acquisition of a 22 per cent stake in Wit Capital, an investment bank specialising in initial public offerings over the internet.

The acquisition comes as Goldman, along with other leading investment banks, reconsiders its own long-term internet strategy following the surge in online trading in the US.

The stake in Wit, which itself is set to become a public company later this year, is one of several Goldman has taken in internet-focused financial companies. In January, the firm announced it was co-investing with E*Trade, the online broker, and Archipelago, an off-exchange electronic stock trading network.

Wit, formed in September 1997, specialises in selling securities to individual investors. Like other internet investment banks, in recent months it has won IPO business by undercutting the fees traditional investment banks charge.

Goldman said the two companies planned to co-operate in a number of areas, including IPOs, but both Goldman and Wit will be free to work with other investment banks.

"We believe that Wit Capital is both an attractive investment for Goldman Sachs and an important part of our ongoing commitment to supporting the internet and other new technologies in our business, both through internal development and external investment," said Henry Paulson, Goldman co-chairman and chief executive.

People close to the transaction said that Goldman was paying more than $20m in cash to Wit.

Goldman will acquire stock and warrants representing about 22 per cent of Wit's common stock, not including the shares that will be issued in Wit's planned IPO.



# Kodak warns of slow progress in earnings revival

By Richard Waters in New York

Eastman Kodak yesterday once again signalled that its earnings revival was progressing more slowly than Wall Street had hoped – though this time it at least escaped another knee-jerk hit to its stock price.

The US photographic products company moved to nudge down market expectations for its earnings in the first three months of this year.

It added, though, that it still expected to make up the lost ground later in the year and to meet its earlier earnings target for the whole of 1999.

Yesterday's news will add to pressure on George Fisher, chairman, to demonstrate a sustained turnround in the second half of this year after the false starts seen in 1998.

Kodak's battered shares had jumped early last year on signs that cost-cutting was moving faster than planned, and that the company had finally responded to a surprisingly successful attack on its core US consumer film market by Fuji.

However, Kodak once again fell out of favour on Wall Street in recent months as it first revealed that revenues were growing more slowly than expected, then that cost-cutting efforts were running out of steam.

Yesterday, it blamed a number of factors, including the impact of buying a medical imaging business, for expected earnings of 73-80 cents a share in the first quarter – below most Wall Street analysts' expectations of more than 80 cents.

While the Dow Jones Industrial Average, of which it is a part, surged back towards the elusive 10,000 mark in New York yesterday morning, Kodak's shares were languishing 26 per cent below their own 12-month high, at $65⅞.

However, the stock was still up $⅛ on the day, resisting the sort of sharp declines it had experienced on previous bouts of bad news.

Kodak's hopes for a sustained revival later this year rest in part on a belief that emerging market economies in Asia and elsewhere are finally turning the corner.

Yesterday, the company reported "tentative signs" that the economic problems of the emerging market "may be moderating". Emerging market sales for the first half of this year will be below last year, but should look up in the second six months "should current trends continue", Kodak said.

While reducing its earnings guidance for the early months of this year, Kodak repeated its belief that it would report earnings of $4.81-5.24 for the year as a whole.

# Dana and GKN plan alliance

By Nikki Tait in Chicago and [illegible] in London

Dana Corporation, the US automotive supplier, and GKN of the UK, plan a three-part strategic alliance aimed at bolstering their position in axles and driveline systems.

The companies said yesterday they were joining forces in designing and developing advanced driveline systems for four-wheel and all-wheel vehicles, establishing a joint office near Detroit which will be staffed by engineers from both companies.

They will also collaborate on developing modular assemblies for passenger cars and light vehicles on a global basis.

In addition, the two groups will swap certain assets. Dana will hand its constant velocity joint (CVJ) driveshaft interests to GKN, which has a stronger position in this area and 37 per cent market share worldwide. GKN, meanwhile, will pass its medium and heavy-duty propeller shaft business to Dana.

The Dana assets involved have annual sales of about $300m, and the GKN businesses about $350m, according to the US company. The Dana assets include a manufacturing operation in South Carolina, as well as joint venture interests in Argentina, Colombia and Brazil.

The GKN businesses are based in Europe – notably Germany, Italy and Sweden – and include a minority interest in light-duty Cardan-jointed propeller shaft operations in UK and Spain.

The two companies – both prominent players in the "under the vehicle" vehicle component market – said the deal would allow them to pool resources, but also play to each other's strengths.

It will confirm GKN's position as the world leader in CVJs, and Dana as the leader in the development of Cardan-jointed propeller shafts.

Mark Little, analyst at BT Alex Brown, said of the deal: "It's an important strategic development. It puts GKN in a better position to develop advanced driveline systems and gives the group a stronger US position from which to win General Motors business after the Delphi demerger."

The demerger of Delphi, GM's parts arm, is expected to open the carmaker's supply business to more external competition.

Dana and GKN already have a fairly close relationship. Dana bought GKN's axle business in 1995, and the UK company bought shares from Dana in the three South American associates at the same time.

**ADVERTISING** P&G POLICY CHANGE MAY SPUR CONSOLIDATION

# Campaigns stepped up for the big sell

By Richard Tomkins, in New York

It seems a sure sign that the bid rumours are getting out of control when a British Sunday newspaper reports that Lord Saatchi is planning to merge his M&C Saatchi advertising agency with Saatchi & Saatchi, the public company he once headed.

"It's like an ant proposing sex with an *elephant*," scoffs a Saatchi & Saatchi insider, saying the tiny M&C Saatchi would have some nerve to propose to a company so many times its size.

Yet for every bid rumour knocked down in the advertising industry, another is ready take its place.

Will True North bid for Cordiant, or will WPP bid for True North? Is MacManus *really talking* to Interpublic? Could Saatchi & Saatchi merge with Grey, then be acquired by Omnicom?

Bid speculation is so rife that nearly all the independent agencies are regarded as targets – even private ones such as MacManus and Leo Burnett.

Like many other industries, the advertising business has been consolidating for years. Agencies have been getting together to provide the global service that multinational clients increasingly require.

But in the last few weeks, a new catalyst has been added: a decision by Procter & Gamble, the world's biggest advertiser, to relax its conflict policy, which prevented its agencies working for competing consumer goods companies. Until recently, client conflicts had been one of the biggest barriers to consolidation.

Acquisitive groups were reluctant to acquire P&G agencies – or even work for P&G – because they would have to give up business

**'It's like an ant proposing sex with an elephant', scoffs a Saatchi & Saatchi insider**

from other clients. With the easing of P&G's conflict policy, P&G agencies are still not allowed to work for direct competitors. But within certain constraints, P&G will no longer object if another agency within the same group works for a rival consumer goods company – thus clearing the way for P&G agencies to be absorbed by larger groups.

"This changes the game," says Alan Gottesman, who follows the industry as managing director of West End Communications/Consulting in New York. "It means companies that were sheltered are now on people's radar screens."

Which are these companies? There are four on P&G's global roster: Grey Advertising, Leo Burnett, MacManus and Saatchi & Saatchi.

Grey, although quoted, is effectively controlled by Ed Meyer, chairman and chief executive, who seems unwilling to retire. But as James Dougherty at Prudential Securities in New York points out, Mr Meyer is 72. "At some point, you would think something has to happen," he says.

Leo Burnett, which last week won global responsibilty for the Heinz brand name, would benefit from greater access to capital from public ownership, or ownership of a larger group. And Saatchi & Saatchi's two big shareholders, Phillips & Drew Fund Management and David Herro of the Chicago-based Harris Associates, would sell for the right price.

As for MacManus, the privately owned parent of D'Arcy Masius Benton & Bowles, some industry sources say it is already talking to Interpublic, parent of McCann-Erickson Worldwide, Ammirati Puris Lintas and the Lowe group.

This seems improbable, since Ammirati handles most of Unilever's global advertising – a conflict too striking even for P&G's softer, kinder rules. But this is an industry in which everyone is talking to everyone. Neither company would comment.

Meanwhile, speculation about deals is not confined to the P&G roster. Medium-sized agencies need to be bigger to be truly global.

"Middle-sized agencies globally can't live, unless they have a real reason for living," says the chairman and chief executive of a US agency group. Martin Sorrell, chief executive of WPP, another big agency group, thinks the industry will eventually be dominated by just five companies: Omnicom, WPP and Interpublic – the three "supergroups" formed through earlier consolidations – plus groups based on Dentsu and Young & Rubicam.

If he is right, this raises questions over the future of the two big French agencies, Havas Advertising and Publicis, as well as the P&G agencies. And few expect Britain's Cordiant Communications to remain independent for long.

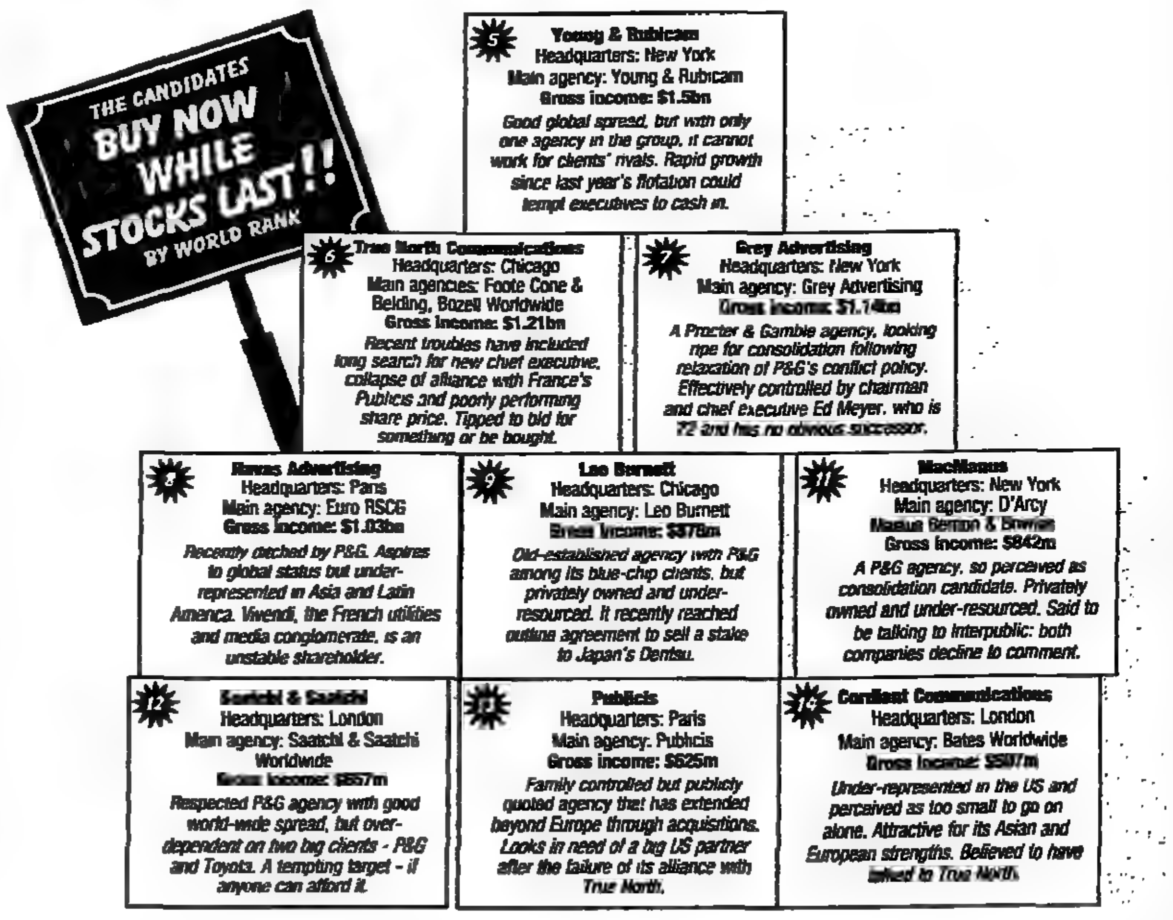
Lorna Tilbian of WestLB Panmure in London says Cordiant, which is strong in Europe and Asia Pacific, would make a good acquisition for Omnicom, which is weak in Asia Pacific, or True North Communications, which is weak in Europe.

Indeed, Cordiant and True North are believed to have exchanged financial information, although nothing appears to have come of their discussions.

Ms Tilbian is less sure about the merger prospects for the French companies after the collapse of True North's blighted marriage with Publicis.

"Over the years, relationships with the French seem to be fraught with problems," Ms Tilbian said.

"I think there's not much the French agencies can do – they've just got to keep going the Gallic way," she added.




# Enersis holders to vote again on offer

By Mark Mulligan in Santiago

Shareholders in Enersis, Chile's largest electricity generator, will today vote for a second time on clearing the way for a $1.45bn bid for control by Endesa, the Spanish utilities group.

The vote, called by institutional investors after the Spanish group fell less than one percentage point short of changing Enersis's statutes on shareholder concentration at a meeting on February 24, is expected to go in favour of Endesa.

"I think Endesa will get the concentration approval this time," said an investment analyst at one of the eight pension fund groups which together hold about 30 per cent of Enersis.

Endesa will use its own 32 per cent stake, which it is looking to double, to vote in favour of changing limits on shareholder concentration at Enersis from 32 per cent to 65 per cent.

The company is also counting on the support of the pension funds and on holders of American Depositary Receipts, which account for 19 per cent of the equity, to reach the 75 per cent majority needed to alter Enersis's constitution.

Endesa has been campaigning to convince ADR investors, which were poorly represented at last month's shareholders' meeting, of the merits of its proposal to use Enersis as its base for investments throughout Latin America.

Analysts say a win today for Endesa is likely to force a shake-up of the Enersis board and result in the resignation of José Antonio Guzmán, company president, who opposes a takeover by the Spanish group.

Stockbrokers in Santiago, meanwhile, say the Spanish group will then launch a counter-bid for control of Endesa Chile, the country's largest electricity generator, against a $2.1bn offer for a 51 per cent stake by Duke Energy of the US.

# Peregrine creditors to receive dividend payments

By Rahul Jacob in Hong Kong

Creditors of Peregrine Investments Holdings, the Asian investment bank that collapsed in January 1998, and its two subsidiaries will receive their first dividend payments later this year of between 3 and 10 cents on the dollar.

PwC, which is in charge of Peregrine's complicated liquidation process, said that some creditors of the two subsidiaries, Peregrine Fixed Income Limited and Peregrine Derivatives Limited, would receive payments in June.

The interim dividend for the parent company would be paid a few months later and will be at least 3 cents on the dollar.

PwC said that gross asset realisations and income for the fixed income subsidiary amounted to US$400m. For the derivatives subsidiary and parent company, the corresponding figures were lower, amounting to HK$479m (US$61.8m) and HK$627m respectively.

Complex legal issues relating to provisions of the International Swap Dealers' Association agreement must be resolved before further progress can be made towards repaying creditors.

David Hague, partner in charge of the liquidation process, said it was likely the firm would take one of the counterparties on a swap contract with Peregrine to court to establish a precedent that would apply to other similar transactions.

The uncharted territory includes the claim by some debtors on transactions with Peregrine that their exposure to Peregrine must be reduced because their credit status was impaired.

The case is expected to be heard in London and could be concluded in three months. Mr Hague said the decision would affect the book-keeping relating to numerous transactions. "It has a knock-on effect. All the ISDA-related claims are up in the air till the issue is resolved," he said.

Peregrine collapsed in January 1998 because of huge loans to an Indonesian taxi and bus company called Steady Safe. Peregrine's headquarters was in Hong Kong and the local government has recently announced that it will go ahead with an inquiry into the bank's collapse.

Mr Hague said that his firm was focused on recovering money for the creditors and had not sought to apportion blame in the bank's collapse. "Nothing has come to our attention that warrants a call to the ICAC (Hong Kong's Independent Commission Against Corruption) or the police," he said.

# Preparation keeps banks in the black

Banking groups throughout Asia have been hit by bad loans, but Hong Kong is riding out the storm, writes **Rahul Jacob**

Sitting in his eyrie high above Hong Kong's bustling business district, Joseph Yam, head of the Hong Kong Monetary Authority, the territory's de facto central bank, is not worried about the health of local banks.

Hong Kong's economy may be in its deepest recession in decades, a property bubble has burst and reports of defaults on foreign loans by enterprises in mainland China surface almost weekly, but he expects the territory's banks to manage just fine.

"I wouldn't be surprised if one or two banks report a loss, but the banks have prepared extremely well," he said.

Why is Mr Yam so sanguine when banking systems elsewhere in Asia are buckling under a spiralling load of bad loans? The answer lies in the comfortable capital adequacy ratios of Hong Kong's banks, which are more than twice the 8 per cent required by the Bank of International Settlements.

Thomson BankWatch, a bank rating agency, estimates that Hong Kong's banks could write off 4 per cent of lending a year and still turn a profit.

Though the recent reporting season in Hong Kong has been characterised by hefty provisions for bad loans, resulting in steep falls in profits, nearly all banks are still in the black. Hongkong Bank, the Asian arm of HSBC Holdings, for instance, increased provisions for bad and doubtful debts almost three times from HK$4.55bn in 1997 to HK$12.53bn (US$1.6bn) in 1998, but still made net profits of HK$10.78bn.

**'In the midst of the financial crisis, Hang Seng Bank is still achieving a 14 per cent return on equity'**

Bank of East Asia, which has large exposures to mainland entities, got the reporting season rolling last month by declaring that it had increased provisions 415 per cent but it too made a profit. Profits at Hang Seng Bank, the Hong Kong subsidiary of HSBC, fell by more than a quarter to HK$6.79bn.

"In Hong Kong, [bad debts] are really more an earnings issue than a balance sheet issue. In the midst of the financial crisis, Hang Seng Bank is still achieving a 14 per cent return on equity," says Roy Ramos, banking analyst at Goldman Sachs.

Nevertheless, the need to make more provisions for more bad loans coupled with anaemic loan demand at home will weigh on local banks well into 1999, say most analysts. Ever since the spectacular collapse of Guangdong International Trust & Investment. Corp (Gitic) in October, Itic has become another oft-used banking acronym that spells trouble in Hong Kong.

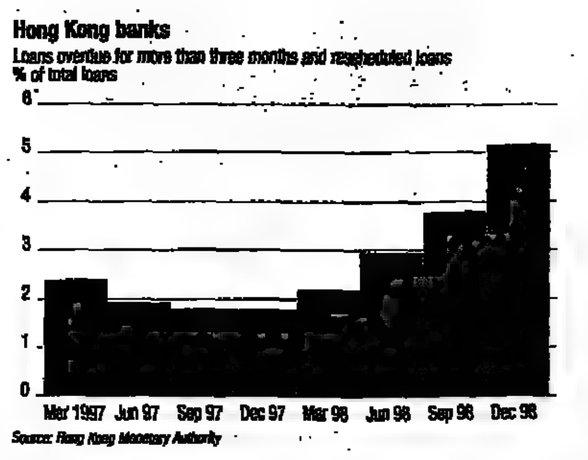
"You can't take one Gitic for all Itics," says David Li, Bank of East Asia chairman.

However, the financial health of mainland entities has deteriorated since the end of 1998, which is not reflected in last year's results. Keith Irving, analyst at Merrill Lynch, says current provisioning levels of local banks would be adequate only if non-performing loans had peaked.

With more bad news still to come, current bad debt allowances provide just 31 per cent coverage of projected peak non-performing loans. Mr Irving forecasts that non-performing loans in Hong Kong will rise from 4 per cent of total advances to 7 per cent in 1999.

Another drag on earnings is that there are too few Hong Kong companies and consumers queueing up for loans. After adjusting for inflation, Hong Kong has among the highest interest rates in Asia. Against a backdrop of the 5 per cent contraction in the economy last year, high interest rates are proving a deterrent to all but the bluest of blue chips.

"Across the board, demand for credit has been severely reduced. In Hong Kong we are placing money in the interbank market, which has never been a fruitful occupation," says David Eldon, chairman of Hongkong Bank.



Source: Hong Kong Monetary Authority

When the going gets tough, however, healthy big banks get more acquisitive. Rana Talwar, chief executive of Standard Chartered, predicts further consolidation among smaller local banks in Hong Kong and more opportunities for the large banks in Hong Kong and elsewhere in Asia.

Governments in places such as Korea are lowering the barriers to entry as they begin rebuilding their banking sectors, while large local banks are still in intensive care – making it easier for banks such as HSBC to move in on favourable terms.

HSBC recently bought SeoulBank, one of Korea's largest banks, and has the option to put back existing and additional non-performing loans for a year.

More ambitious forays abroad are an attractive way for Hong Kong's large banks to diversify further their earnings stream, as plump margins in Hong Kong become less of a sure bet. The government is committed to loosening further the cartel-like control deposit rates that local banks enjoy.

Mr Eldon says a projected 20 per cent drop in net interest income when such deregulation eventually takes place would be "a worst-case scenario".

Competition in the local mortgage market, meanwhile, is getting fiercer by the day. None of this ought to worry Mr Yam unduly, but it does mean that Hong Kong's banks will have to work a little harder for their money.

INDONESIA FIRST FOREIGN TAKEOVER

# GE Capital to buy 90% stake in Bank Bali

By Sander Thoenes in Jakarta

GE Capital Services, the finance arm of General Electric, the US conglomerate, is finalising the purchase of 90 per cent of Bank Bali, one of Indonesia's largest banks, according to bankers. The deal would be the first takeover of an Indonesian bank by a foreign group.

Subarjo Joyosumarto, director at the Indonesian central bank, which would need to approve the deal, has named GE Capital Services as the foreign investor for Bank Bali and said details would be released next month.

Neither GE nor Bank Bali would comment, but Bali directors have said repeatedly that they expect to sell 90 per cent of their shares to a strategic investor.

The deal could be worth more than Rp1,400bn ($157m), which would make it one of the largest purchases in Indonesia by an overseas group since the Asian crisis erupted in 1997.

GE has been expanding aggressively in Asia. Last year it took over $1.1bn in loans from liquidated Thai finance companies, while in January it bought the equipment and auto leasing operations of Japan Leasing for about Y800bn ($6.6bn), in the largest foreign purchase in Japan to date.

Bank Bali, which is 29.3 per cent owned by the Ramli family which founded it in the 1950s, is considered one of Indonesia's strongest banks. However, it has been hit by the country's banking crisis. It reported a capital adequacy ratio of minus 9 per cent last December and appealed for a government bail-out.

As part of a bail-out of nine private banks, the government earlier this month agreed to lend up to 80 per cent of the Rp1,800bn that Bank Bali needs to reach a required capital adequacy ratio of 4 per cent. Bali's shareholders and the new investor would need to put up the remainder, but local newspapers quoted Bali executives as suggesting that the new investor could put up the full Rp1,800bn.

Indonesia had previously banned foreign majority purchase of local financial institutions and limited the number of branches for overseas banks, but the collapse of the banking sector led to a change in banking laws. However, the laws remain vague and some foreign banks have balked at bailing out existing joint ventures.

# BTM considers foreign link to boost securities

By Gillian Tett in Tokyo

The Bank of Tokyo Mitsubishi, Japan's largest bank, is considering an alliance with a foreign partner to boost its overseas securities business, according to Satoru Kishi, BTM president.

Mr Kishi stressed BTM did not have any partner in mind yet, though it had held discussions with western financial groups.

However, he said that BTM would be flexible over the format of any possible collaboration. "So far we have not found a workable alliance which meets our requirements. For example we would like to have a majority stake in our domestic operations. However in overseas operations we would consider other ideas," he said.

Mr Kishi's comments mark a subtle shift in BTM's stance. Although other Japanese banks forged alliances with western partners in the last year, BTM has so far made only limited product-based alliances, because it believed it was strong enough by itself to become a full-fledged international universal bank.

However, BTM is seeking to bolster its securities operations. Its strategy in this area suffered a blow last year when its traditional ally, Nikko Securities, concluded an alliance with Travelers, the US financial group which later merged with Citicorp.

BTM is currently unable to link with other Japanese large brokers, since Daiwa Securities is linking with Sumitomo Bank, and Nomura Securities is in discussions with Industrial Bank of Japan. Although BTM is expanding the operations of its securities subsidiaries, these lag behind western banks.

Mr Kishi stressed that BTM had no intention of sharply reducing overseas operations, in contrast to most other Japanese banks. It also has no plans to apply for public money to boost its capital base.

However, in a remark that may disappoint potential overseas investors, Mr Kishi said he did not expect that BTM would take measures to boost its return on equity, even though this has traditionally been only half the levels seen in European or US banks.

"We have to raise our return on equity for shareholders, but the the bank has a public mission – it is not true that the higher the ROE, the better the bank," he said. "A drastic restructuring would boost the ROE but it will have a deflationary effect and aggravate unemployment, and so the goal of just boosting the ROE will not occur."

BTM hoped to focus on fee-based business, but any reduction in its assets would occur only "gradually", Mr Kishi said. Japanese banks were "moving in the direction" of raising lending margins to boost profits, but he warned this would not occur rapidly.

The bank said it would provide Y100bn ($832.7m) worth of financial support to three of its finance affiliates in the second half of the fiscal 1998 year.

# New World to list China property arm

New World Development, the Hong Kong property and infrastructure developer, yesterday said it would seek a separate listing for its China property division in 1999 after disappointing interim results, Reuters reports from Hong Kong.

"We are pushing for a listing this year," said Henry Cheng, managing director, though he declined to give details on the assets to be spun off.

New World Development earlier announced an attributable profit of HK$633.4m (US$81.7m) for the six months ended December 1998, a 71.2 per cent decline from the year-earlier period. The company has large residential and commercial property development projects in 11 cities in China and hotels and department store projects in several others.

New World posted sharp earnings declines in four of its six main operating divisions. Operating profit from property sales fell to HK$503.1m, down 70.6 per cent from a year earlier and rental income from investment properties fell 11.2 per cent to HK$578.6m. The hotel division was hit hard by the downturn in tourism in Hong Kong, with operating profit falling to HK$9.6m from HK$85.6m in the six months to December 1997.

However, the worst results came from the telecommunications division, which posted a loss of HK$374.7m in the six-month period.

The division reported a loss of HK$317.5m a year ago. The loss was due to tougher competition in the mobile telephone market and sharp price cuts, said Peter Tsang, managing director of New World Telephone Holdings.

**FINANCIAL** DEAL WILL ENABLE PARTNERS TO PROFIT FROM INCREASINGLY RAPID CHANGES

# Liffe sets up cash markets joint venture

By Edward Luce, Capital Markets Editor

The Liffe derivatives exchange and London's largest financial clearing house yesterday unveiled a joint venture to provide trading and clearing services to the mainstream cash markets.

Senior officials said the move – through an agreement between the London International Financial Futures and Options Exchange and the London Clearing House – would enable them to profit from the increasingly rapid changes taking place in the financial markets. These were being driven by new technology, said Brian Williamson, chairman of Liffe.

"The market is asking for two things," said Mr Williamson. "It wants consistent trading technology across different markets and across national boundaries and it wants to be able to clear its multiple trading positions on one book with the least possible risk."

The joint venture, which will include Sir Brian Pitman, chairman of Lloyds TSB, and Alastair Clark, executive director of the Bank of England, on its founding board of directors, aims to combine Liffe's electronic trading technology with LCH's experience in clearing.

Officials said the company, which will be named next month, is expected to launch operations in markets which currently lack consistent trading or clearing services. The implication was that this could extend to international bond markets or even to Europe's emerging continental stock market.

Liffe says that its new trading system, Liffe Connect, which will include all of the exchange's leading contracts by July, is designed to be flexible and to enable trading in unrelated "cash markets". Theoretically, market users could use Connect to trade both bonds and the derivatives contracts based on them from a single screen.

The LCH, which also clears trades on the International Petroleum Exchange, Tradepoint and the London Metals Exchange, last week received regulatory approval in the US to launch a clearing system for the global interest rate swaps market, known as SwapClear. The clearing house is also planning to launch a system to clear repos (securities repurchase agreements) in competition with the French clearing house and Euroclear, a clearing and settlement house based in Brussels.

Officials at Liffe hope the joint venture could provide the exchange with a competitive edge over Eurex, the Frankfurt-based exchange which last year overtook Liffe as the largest derivatives market in Europe. Unlike London, where the exchanges are scattered among different owners, Frankfurt's stock and derivatives exchanges and its clearing house are owned by a group of leading German banks. The same applies to the Societe des Bourses Francaises, the French stock exchange, Matif, its derivatives exchange, and the French clearing house.

Some continental officials have pointed to London's fragmentation as a weakness. But Mr Williamson said there was little point in Liffe merging with the LCH or any other body. "Why compromise each other's independence of action when you can achieve what you can together through a joint venture?" he said.

# Cycles cause commotion in consumer and services sector

Rejigging the indices may label some companies in a way that implies volatility and deters investors. **Maggie Urry** reports

**All change for the FTSE**

For one consumer sector analyst at least, April 1 is an appropriate date on which to make changes to the FTSE sector indices. "The whole thing is a joke," he says, although the bitterness in his voice suggests he does not think it a funny one.

Others praise the FTSE classification committee's attempt to rejig the sectors into which the UK stock market's constituent companies are corralled. It has been welcomed by fund managers, eager to compare stocks across frontiers.

The reshuffle into similar categories to those applied to other markets is intended to grant them their wish.

But one cause for concern is the division of the consumer and services groups into cyclical and non-cyclical subsections. One senior investment manager says: "It is a bizarre split. I do not think it particularly helpful for the FTSE committee to determine whether something is cyclical."

"Cyclical" can be a pejorative term in the investment dictionary. Applying it to a company implies it has volatile earnings and deserves a low rating. The label is likely to annoy some companies thus classified.

According to Graham Colbourne, secretary to the FTSE classification committee, the aim is to group together those companies that are significantly affected by economic cycles and separate them from those that are not.

"There is no true non-cyclical sector; every sector is related to the economy as a whole," concedes Mr Colbourne. But he says the new labels will identify those businesses that are more susceptible to the economic cycle.

One criticism is that the epithet cyclical has been applied only to consumer and services businesses. Many other industries are cyclical: basic industries such as chemicals, paper, construction and steel are notoriously volatile, while insurance and property companies are slaves to their cycles.

But these, Mr Colbourne suggests, have their own cycles, which may or may not move with the economy. "Every company has a cycle," he says. The committee has "identified sectors most aligned to the *economic* cycle".

More detailed criticisms involve the division of sectors between the cyclical and non-cyclical groups. While some sectors appear to have been pigeonholed correctly, investors and analysts have doubts about others.

Investors in restaurants, pubs and breweries will not be surprised to find that sector in the cyclical group. One analyst says: "You would have had to spend the past three years in a small round hut in outer Mongolia not to have noticed it is cyclical. That is why it is on a p/e of 8."

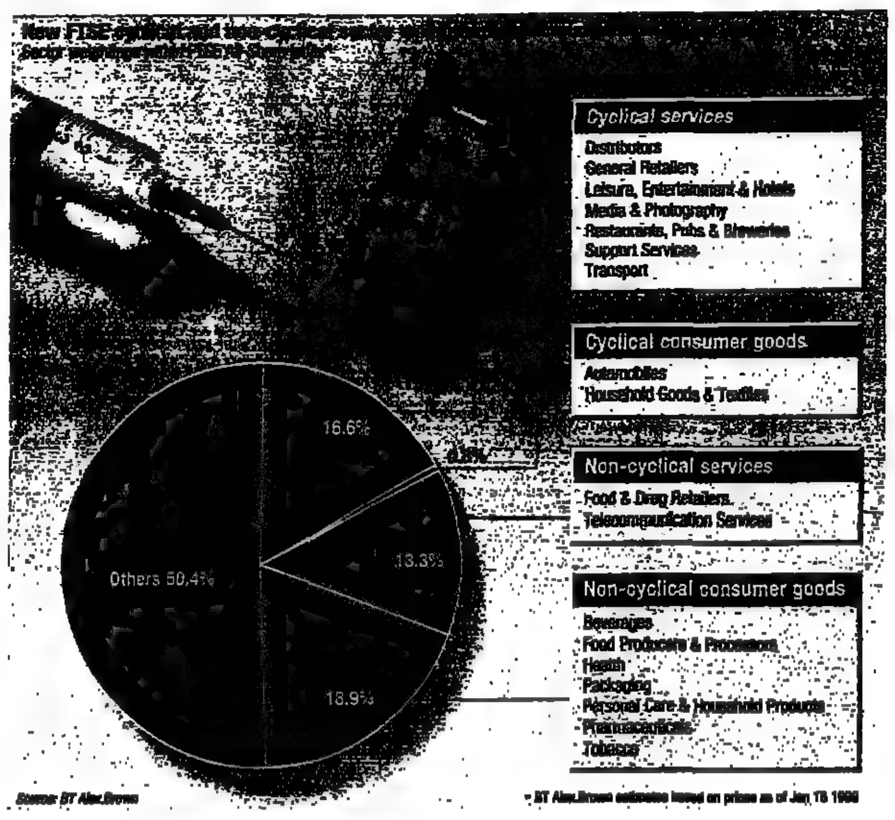
Packaging, on the other hand, has been put in the non-cyclical consumer goods group. Some feel it should not have been.

"Packaging is 100 per cent cyclical," says a packaging analyst. "It is completely tied to the cycle." Packaging such as corrugated boxes used to protect goods in transit is affected by the level of business being done, while packaging for display in shops is arguably a cyclical business, since general retailers have been put on that side of the divide.

Mr Colbourne disagrees. Much packaging is used in the food, drinks and pharmaceuticals industries, all of which the committee have identified as non-cyclical sectors, he says.

The food sector's classification is contentious. Mr Colbourne argues that people must eat, whatever the state of the economy. But David Lang, analyst at Henderson Crosthwaite, says: "Most UK food companies are cyclical."

Particularly prone to cycles are those nearest the agricultural end of the food chain, where pig or poultry prices are notoriously volatile.




Source: BT Alex.Brown

Putting support services in the cyclical camp, says one analyst, "is absolute tosh". Although most companies he covers are providing services to other companies and might be thought cyclical, there is a trend towards outsourcing that has enabled companies to grow through the economic cycle.

There is also a debate among general retailers, who have been classed as cyclical, and food and drug retailers, who are regarded as non-cyclical.

Michael Hingston, corporate communications director at Kingfisher, the retail group that owns the Woolworths, Superdrug, Comet and B&Q chains, argues that profits from Woolworths and Superdrug are "quite stable".

"Do-it-yourself has had its ups and downs," he says, but adds: "There is no real evidence that it is cyclical." Only Comet, the electrical goods chain, is tied to the economy. Even so, he says: "It's not something we are getting in a froth about. We accept their verdict and we will see how it goes."

Mr Hingston believes most investors know the business well enough not to be influenced by classification.

An analyst says: "You can have a good business in a bad sector and vice versa." Investors are sufficiently sophisticated to look beyond classifications when valuing companies.

He says: "The market is pretty good at deciding where things should go."

# ICI confirms Huntsman talks

By Virginia Marsh in London and William Lewis in New York

Imperial Chemical Industries may be considering selling its acrylics operations, previously identified as a core area, as one of several deals it is negotiating.

Shares in ICI rose more than 6 per cent to 561p yesterday after the UK chemicals group confirmed it had been in talks with Huntsman, the large US private chemicals concern.

ICI said it had been in discussions with several companies, including the Utah-based group, and that the talks were continuing. It said it would make no further comment until they were concluded.

However, ICI, which is moving out of bulk chemicals to focus on speciality products, is believed to be close to announcing a deal with Huntsman on some of the industrial chemicals businesses it has been trying to sell for nearly two years.

The lossmaking division includes tioxide, huge petrochemical and chlorine complexes on Teesside and in Runcorn in north-west England, as well as businesses in several emerging countries including India and Pakistan.

The planned sales may be worth as much as $3bn, including debt, and a deal with Huntsman could be announced as early as Wednesday.

The US group is believed to have approached ICI last year but to have been rebuffed, partly because it was unclear whether BP, ICI's partner in an ethylene cracker on Teesside, wanted to buy out the chemical group's stake.

Analysts were, however, surprised it might be interested in diversifying into tioxide – used to whiten paints – not least because they say market leaders such as DuPont still appear to be interested in acquiring parts of the ICI operations. ICI's original deals with DuPont and NL Industries, also of the US, were blocked by US regulators last year.

Huntsman, which has sales of more than $4bn, has made a name by buying commodity chemical assets at the bottom of the cycle. The Huntsman family is also known for its donations to charity.

Acrylics is the smaller part of ICI's materials division, which also includes polyurethanes. The group has previously identified the division as core although it has suggested it is less important than speciality products and coatings, its two other main businesses.

## RESULTS

| | | Turnover (£m) | | Pre-tax profit (£m) | | EPS (p) | | Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ashtenne | Yr to Dec 31 | 16.1 | (11.4) | 12.5 | (7.63) | 13.2† | (14.1) | 3.8 | May 28 | 3 | 6 | 5 |
| Beechcroft Φ | 14 mths to Dec 31 ☆ | 5.91 | (3.3) | 0.541 | (0.323) | 0.29 | (0.17) | 0.08 | May 14 | 0.05 | 0.08 | 0.05 |
| Bemrose | Yr to Jan 2 ★ | 216.8 | (206) | 11.6♠ | (23) | 10.91 | (36.71) | 11.35 | May 17 | 10.5 | 17.5 | 16.25 |
| Blue Circle Inds | Yr to Dec 31 | 2,303 | (2,319) | 273.8 | (246.3♠) | 22.8 | (17) | 10.35 | June 8 | 9.85‡ | 15.2 | 14.5‡ |
| British Regional | Yr to Dec 31 ✣ | 189.1 | (191.8) | 5.17 | (4.22) | 8† | (6.6) | 0.88 | May 24 | - | 0.88 | - |
| Cooper (Frederick) | 6 mths to Jan 31 ★ | 23.8 | (27.7) | 2.02L♠ | (0.74) | 14.6L† | (2.6) | 0.7 | July 1 | nil | - | nil |
| Creston | 6 mths to Dec 31 | 2.1 | (2.88) | 0.745♥ | (0.404♥) | 8.3 | (4.3) | - | - | - | - | nil |
| French Connection | Yr to Jan 31 | 117.3 | (93.7) | 10.4 | (8.21) | 34 | (27.5) | 3.25 | July 1 | 2.5 | 4.25 | 3.25 |
| Fulmar | Yr to Dec 31 | 38.4 | (39) | 4.37♠ | (4.98) | 11 | (12.2) | 3.4 | May 14 | 3.4 | 5.2 | 5.2 |
| Gaskell | Yr to Dec 31 | 52.6 | (48.8) | 5.05 | (3.66) | 17.6† | (12.9*) | 3.1 | July 2 | 1.5* | 4.3 | 2.1* |
| Malden | Yr to Dec 31 | 65.3 | (63.2) | 4.47 | (10.1) | 6.1 | (17.7) | 4 | May 28 | 4 | 6 | 6 |
| Netcall Φ | 6 mths to Dec 31 | 0.318 | (0.573) | 0.662L | (0.237L♥) | 3.75L† | (1.57L) | - | - | - | - | - |
| Pascoe's | Yr to Jan 2 | 5.23 | (5.13) | 0.188L | (0.162L♠) | 10.05L† | (12.39L) | nil | - | nil | nil | nil |
| Pathfinder Props Φ | 9 mths to Dec 31 § | 10.4 | (2.22) | 1.17 | (0.269♠) | 1.65† | (0.9) | 0.306 | May 19 | - | 0.306 | - |
| Rutland Trust | Yr to Dec 31 | 107.3 | (139.6) | 87.1♥ | (14.8♠) | 22.4 | (4.42) | 1.4 | May 21 | 1.25 | 1.98 | 1.7 |
| Silver Shield | 6 mths to Nov 30 | 5.05 | (3.3) | 0.839L | (0.197L♠) | 0.22L† | (0.17L) | - | - | - | - | - |
| T&S Stores | Yr to Jan 2 | 648.4 | (549.1) | 22♠ | (20♠) | 20.4 | (18.68) | 5.75 | May 28 | 5.25 | 9.35 | 8.5 |
| Taylor Nelson Sofres | Yr to Dec 31 ★ | 342 | (111.6) | 28.2♥ | (11.8♠) | 5.23 | (3.06) | 0.9 | July 1 | 0.5 | 1.4 | 1 |

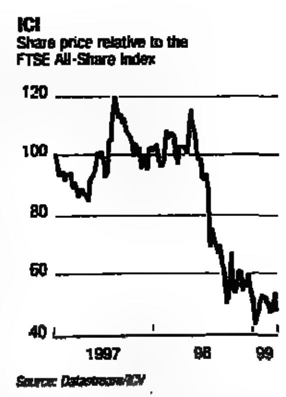
| Investment Trusts | | NAV (p) | | Attributable Earnings (£m) | | EPS (p) | | Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CU Environmental | Yr to Dec 31 | 142.3 | (141.8) | 0.196 | (0.096) | 0.78 | (0.55) | 0.5 | Apr 30 | 0.5 | 0.5 | 0.5 |
| Invesco Japan Disc | 6 mths to Jan 31 | 45.64 | (36.97◆) | 0.064L | (0.031L) | 0.23L | (0.11L) | - | - | - | - | nil |
| Prolific Income | 6 mths to Jan 31 | 159.77 | (158.62) | 1.05 | (1.08) | 2.01 | (2.03) | 1.84 | Apr 30 | 1.765 | - | 4.515 |

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. †On increased capital. ΦAim stock. ☆Comparatives for year to October 31. ♠After exceptional charge. ♥After exceptional credit. ★Comparatives restated. ‡Foreign income dividend. ✣Comparatives pro forma. *Adjusted for share subdivision. §Comparatives for 12 months to March 31 1998. #Excludes 3p special. ◆At July 31.

## COMMENT

### ICI

Imperial Chemical Industries' finance director will be gasping for the £2bn ($3.26bn) ICI could get from selling unwanted assets. Of course, the net proceeds in ICI's hungry hands may look different if there are one-off charges for environmental costs. But the impact on ICI's over-stretched balance sheet should be straightforward and certainly welcome.




Source: Datastream/ICV

Quite what it would mean for ICI's profits is harder to pin down. If ICI manages to offload all its industrial chemical assets, it would be ridding itself of 1999 losses of anywhere between £60m and £100m. But this assumes – optimistically – that Huntsman and other buyers are prepared to take on all of ICI's trouble spots.

To sweeten the pill, ICI may throw part or all of its materials business – basically acrylics and polyurethanes – into the auction pot. This division makes decent profits despite its cyclicality, but is looking increasingly out of place in the "new improved" ICI, focused on speciality chemicals. Shedding all of materials could mean foregoing estimated profits of £90m-£110m. Until it is clear what mix of businesses ICI is selling, it is impossible to determine how earnings will be improved from the reduction in the interest charge. Estimates range from a 20 per cent enhancement to 40 per cent. Investors should not get carried away. At 561p, the share price already assumes a fair bit of good news, and little risk of another ICI-style disappointment.

### Liverpool Football Club

More than any other Premiership club, family-controlled Liverpool has felt the pain of Manchester United's success. With financial advisers now appointed to mull over its options, the Moores family may choose to share that pain with the public. Sporadic trading in Liverpool's unlisted minority shares value the club at around £150m. But the extra liquidity of a large free float would lift the trophy club's value. Applying Man Utd's pre-bid sales multiple to Liverpool's 1997/8 turnover of £39m could see a trading value for Liverpool of nearer £200m. Selling a strategic stake to a media partner, assuming British Sky Broadcasting's bid for Man Utd gets competition clearance, could see it more highly valued still. But without Man Utd's marketing skill and success on the pitch, especially in Europe, it would hardly warrant a premium to the red devils.

# EU set to approve BT-AT&T venture

By Emma Tucker and Alan Cane

The European Commission is today expected to clear the proposed joint venture between British Telecommunications and AT&T of the US after the two made a number of concessions.

The main objections to the deal, which will create a global carrier with forecast initial revenues of $10bn, are understood to have been lifted after AT&T guaranteed that Telewest, the UK-based cable and telecoms operator in which it has an interest, would operate independently of BT. TeleCommunications Inc, the US cable group which AT&T is in the process of acquiring, holds 21.6 per cent of Telewest.

Prompted by concerns about the scope for "co-ordination" between BT, AT&T's UK subsidiary, and Telewest, the Commission had opened a full antitrust inquiry. It is also understood that Commission plans to force local loop unbundling have been dropped.

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The transaction will be conducted under the UK Government's Private Finance Initiative. Respondents must demonstrate their financial resources and their technical experience and capacity to provide the required services in a transaction of this size and complexity. A briefing day will be held in London on 30th April 1999.

For further information, including a copy of the recent notice in OJEC, a briefing document and a questionnaire (to be completed and returned by 1st June 1999), please telephone Simon Barnicott on 0115 974 0770 or fax on 0115 974 0790.

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# EURO PRICES

## EQUITIES

# Mergers help buoy European markets

**EUROPEAN OVERVIEW**

By Vincent Boland

More mergers and acquisitions activity pushed European stock markets higher yesterday, with oil, pharmaceuticals and telecommunications stocks grabbing the spotlight in active trading across the main bourses.

The gains came despite further weakness in the euro, which analysts said was vulnerable to the danger that the escalating crisis in Yugoslavia could become a prolonged war.

Investors also were waiting for any signs that this week's meeting of the US Federal Reserve's policy-setting open market committee would signal a change in the Fed's stance on interest rates.

But merger news set the tone and helped the markets to gains of between 1.5 and 2 per cent.

The FTSE Eurotop 300 index of leading European shares rose 19.11 to 1,256.77 while the FTSE Eurotop 100 index rose 54.99 to 2,912.21. The FTSE Ebloc index of shares in euro zone markets gained 15.29 to 1,024.83.

BP Amoco closed 60 cents higher at €16.24 following confirmation that it was in talks to acquire Atlantic Richfield of the US.

Investors greeted the news warmly despite the fact that BP Amoco is still in the thick of bedding down the merger of British Petroleum and Amoco.

Other oil stocks, already rising on the back of stronger oil prices, were boosted by the development and the sector gained 3.6 per cent.

Elf Aquitaine rose €6 to €131, PetroFina was up €16 at €501, Eni added 30 cents to close at €5.84, and Royal Dutch rose €1.60 to €50.

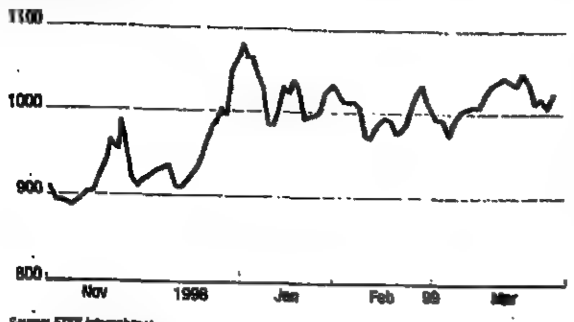
Pharmaceuticals surged after the revelation that Glaxo Wellcome, which rose €1.20 to €29.88, was on the prowl again after its tentative talks with Bristol Myers Squibb of the US ended.

SmithKline Beecham, with whom Glaxo has attempted previously to merge, added 50 cents to €12.91.

Telecoms were helped by some end-of-quarter buying and by continuing developments surrounding the Telecom Italia/Olivetti bid battle.

The two protagonists were unchanged but Telecom Italia Mobile gained 40 cents to €6.16 after the weekend announcement that Telecom Italia would pay cash to buy out minority shareholders, rather than swap shares.

**FTSE Eurobloc 100**



Source: FTSE International

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| Mar 29 National & Regional Markets | Euro Index | Day's % | change points | Yield gross % | xd adj ytd | Total retn (Euro) € |
|---|---|---|---|---|---|---|
| FTSE Eurotop 300 | 1256.77 | +1.54 | +19.11 | 2.04 | 4.71 | 1299.05 |
| FTSE Eurotop 100 | 2912.21 | +1.92 | +54.99 | 2.02 | 11.30 | 1048.12 |
| FTSE Eurobloc 100 | 1024.83 | +1.51 | +15.29 | 1.97 | [illegible] | 1041.63 |
| FTSE EuroMid | 1226.84 | −0.01 | −0.14 | 2.91 | 5.60 | 1277.20 |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 1212.21 |
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| 2 year | 3.08 | 3.12 | 5.17 | 5.20 | 1.65 |
| 3 year | 3.24 | 3.28 | 5.25 | [illegible] | 1.93 |
| 4 year | 3.44 | 3.46 | [illegible] | [illegible] | 2.15 |

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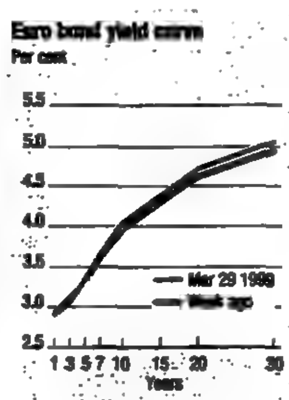
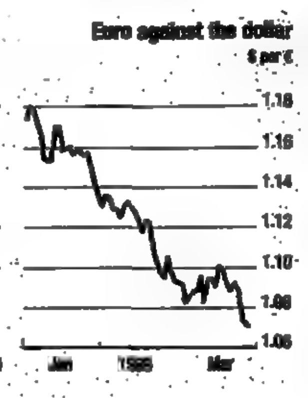



**Euro against the dollar**



# Treasuries fall sharply as equities rally

**BENCHMARK BONDS**

By John Labate in New York and Khozem Merchant in London

US Treasury prices plunged in early trading as equities rallied ahead of the US Federal Reserve's Open Market Committee meeting today to discuss interest rates.

European markets were lower amid continuing weakness in the euro, war in emerging Europe and increasing speculation of an interest rate cut by the European Central Bank, when it meets next month.

The 30-year US Treasury had lost ¾ to 94⅜ by midday, sending the yield up to 5.629 per cent, and the 10-year note gave up ⅛ to 96⅛, yielding 5.242 per cent.

A series of factors weighed on the market. "It's a combination of corporate supply and some hedging, strengthened stocks and resilience in oil prices," said Richard Gilhooly, at Paribas Capital Markets in New York.

The short-end of the market was boosted by continued flight to quality buying as a result of the Nato bombing of Kosovo. The two-year note was unchanged at 99⅔, yielding 4.991 per cent.

While few analysts expect the Fed to move interest rates at today's meeting, there was growing unease about strength in a forthcoming batch of economic data. Later this week, fresh figures are expected from a manufacturing sector survey by the National Association of Purchasing Management and on Friday a new monthly employment report.

The conviction that the ECB may ease monetary policy was driven by a survey in France that showed a continued deterioration in business confidence. Some analysts say this may tip the balance in favour of a cut when the ECB meets on April 8. The June 99 euribor future is discounting a rate cut of 15 to 20 basis points.

To date, the assumption in the market has been that a sluggish German and Italian economy would be insufficient to induce another easing in rates. But yesterday's striking evidence of weak business confidence in France, the euro-zone's other economic powerhouse, may now prove the catalyst.

The INSEE industrial survey showed a fall in manufacturing in March. The balance of companies reporting a rise in output in recent months was –3, down from –9 in February, well off the highs seen last year. With weak demand and destocking, firms are also pessimistic about output prospects.

"If France does slow then the ECB will cut. There is a gradual belief in this," said Graham McDevitt at Paribas. However, Phyllis Reed at Barclays Capital said that despite apparent weakness in France, the ECB is ultimately likely to cut on the basis of the continuing travails of the euro.

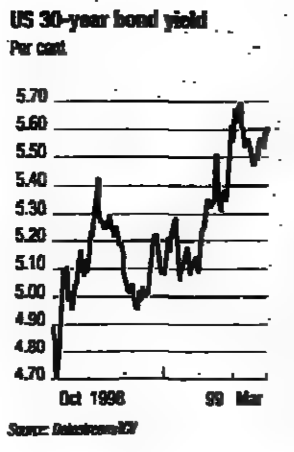
The short end of the European yield curve stayed firm, encouraged by the fact that the ECB can, and now is likely to, cut rates, and despite another disastrous day for the euro.

"Business is aware of a decline in orders. But at the same time consumer demand is robust, based on expectations of falling unemployment and rising equity prices. The question is, which will crack first," said Keith Edmonds at IBJ International.

Elsewhere, the June 10 year German bund settled weaker at 113.49, down 10 basis points on Friday's close. Japan was quiet ahead of the end of the year reporting season, while UK gilts eased marginally, after regaining earlier losses.

The Bank of England's monetary policy committee meets early next month and a further weakening of key indices could resume the pattern of interest rate cuts after the decision to hold steady in March. Short sterling futures have seen gains of 35 basis points recently in the expectation of an easing in monetary policy.

**US 30-year bond yield**



Source: Datastream/ICV

# Fortis debut successful with €1.25bn offering

**NEW ISSUES**

By Bertrand Benoit

Fortis, the Belgian-Dutch financial services group, made a successful debut in the international bond market, with a 10-year €1.25bn bond, adding to the long list of corporate issuers in euros.

Fortis joined the top 10 club of European banks by market capitalisation following its merger with Belgium's Générale de Banque last year.

Lehman Brothers, joint lead manager with Générale de Banque, said the group was now eager to tap a more diversified pool of investors because of its recent increase in size.

The offering, which was raised from a planned €1bn, met good demand and was sold to 70 investors, mainly in France, the Benelux region and southern Europe, the bank said. Fund managers provided two-thirds of the demand, with a quarter of the paper going to insurance companies.

There have been a raft of issues from European banks recently but Fortis hoped to offer rarity value because of its profile as a bank and insurance company.

The bond was priced to yield 70 basis points over the benchmark 10-year German bund and later tightened by 1.5 basis points.

The recent resurgence of long-dated sterling issues continued after a focus on the euro during the first weeks of the year. There were two £200m offerings from high-profile names, with maturities over 25 years.

PowerGen, the British electricity utility, issued a 25-year bond, its first issue in sterling since it launched a 10-year note in 1996.

The company was keen to increase its long-dated funding and tap the buoyant sterling market. Bankers said it expected to stand out amid the crowd of similar securities thanks to its high profile as a FTSE 100 stock.

The offering was priced to yield 170 basis points over the 2021 gilt and was fully subscribed.

HSBC, co-lead manager with Warburg Dillon Read, said it expected the bond to perform in line with an existing National Power bond trading at 165 basis points over the relevant gilt.

The Kingdom of Spain returned to the UK debt market after a 14-year absence with a 30-year bond priced to yield 70 basis points over the 2028 gilt – which many bankers thought expensive.

An Italian government bond, maturing in 2028, was trading at around 80 basis points over the relevant gilt. "This is not a successful deal," said one official. "It is a pity because Spain is such a rare issuer in sterling."

But Barclays Capital, sole manager of the issue, said the launch was successful, with the bonds trading at the reoffer price. It said the spread difference between Spain and Italy mirrored that in the euro market.

Spanish paper denominated in sterling was attracting demand from UK-based institutions because of the scarcity of AA rated securities as the UK government was slowing its rate of issuance, the bank said.

The offering was largely bought by UK investors, with the balance going to Benelux-based institutions.

**New international bond issues**

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees % | Spread bp | Book-runner |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Provident Bank HEL Tr(a)‡ | 315 | | | | | | Lehman Brothers |
| Banco Popolare di Verona‡ | 300 | (b) | 99.767R | Apr 2006 | 0.20R | | ABN Amro |
| **EUROS** | | | | | | | |
| Fortis Finance NV(a) | 1.25bn | 4.625 | 99.101R | Apr 2009 | 0.40R | +70(5%-Jan09) | Lehman Brothers |
| DePfa Bank(c,p) | 250 | (c)‡ | 100.10 | Apr 2002 | 0.10 | - | Goldman Sachs |
| Cregem Finance NV | 120 | (d) | 100.00 | Apr 2003 | 2.00 | - | Dexia Capital Markets |
| **STERLING** | | | | | | | |
| Kingdom of Spain | 200 | 5.25 | 99.602R | Apr 2029 | 0.45R | +70(6%-Dec28) | Barclays Capital |
| PowerGen UK plc | 200 | 6.25 | 97.864R | Apr 2024 | 0.625R | +170(8%-21) | HSBC Mkts/Warburg DR |
| BNG(f) | 50 | 5.375 | 101.079 | Jun 2021 | 0.45 | - | Dresdner KB |
| **SWISS FRANCS** | | | | | | | |
| Republic of Austria | 600 | 3.00(e) | 102.35 | Aug 2008 | 2.75 | - | CSFB |
| Ned Waterschapsbank | 200 | 2.25 | 101.80 | May 2004 | 2.00 | - | ABN Amro |
| **CANADIAN DOLLARS** | | | | | | | |
| HypoVereinsbank | 100 | 5.25 | 99.34R | Apr 2004 | 0.275R | +32½(Sep03) | TD Securities |
| **AUSTRALIAN DOLLARS** | | | | | | | |
| Commerzbank | 100 | 5.375(s) | 100.905 | Dec 2002 | 1.60 | - | RBC DS Global Markets |
| HypoVereinsbank | 100 | 5.375(s) | 100.90 | Dec 2002 | 1.50 | - | TD Securities |

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. # Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Home Equity Loan Trust, Series 1999-1, 3-tranche asset backed. b) 3-mth Libor +15bp. c) €750m launched last week was increased to €1bn. c) 3-mth Euribor -2bp. d) Equity-linked formula. e) Spread relates to German govt bonds. f) Fungible with £100m. Plus 141 days accrued. i) Long 1st coupon. p) Oeffentliche Pfandbrief. s) Short 1st coupon.

# Fledgling EDR sector to get boost

By Khozem Merchant

The fledgling market for euro depositary receipts (EDRs), which came into being with the birth of Europe's single currency, is about to get a boost.

The EDR market has seen little activity so far this year but bankers said yesterday they expected a number of companies from eastern Europe to launch limited EDR programmes, which do not include capital raising, in the next few weeks.

They will follow Borsodchem, Hungary's leading chemicals group, which last week launched a facility allowing investors to buy and trade shares in euros.

Gazprom and LUKoil, the big Russian energy groups, as well as companies from Poland, Turkey, Greece and Slovenia are expected to establish similar limited EDR facilities to achieve a wider spread of shareholders in mature markets. They are seen as prerequisites to launching full EDR programmes that would include raising new capital in euros.

There are only two full EDR programmes, by Zagrebacka Banka, a Croatian bank, and an Egyptian brewery. Observers said the scarcity of such issues so far is due to the impact of the Russian and Asian financial crises, which have made emerging markets a low priority for fund managers.

Borsodchem's EDR limited facility also allows investors outside Hungary to receive dividends in euros. The facility is expected to improve secondary market trading in Borsodchem's shares by widening its shareholder base.

"This [limited EDR facility] is an essential first step," said Chris Kearns, vice-president at Bank of New York, which is arranging the facility for Borsodchem and other Hungarian companies. "The next step would be for these companies to launch full EDRs and that is certainly the indication we are getting."

Three other Hungarian companies are expected to launch limited EDR facilities in the next month. They are OTP, Hungary's largest bank, Zalerakamia, a ceramics company, and TVK, another chemicals group.

All the Hungarian issues will be listed on the London Stock Exchange. Several of the companies already have dollar-denominated global depositary receipt programmes (GDRs) listed in London, which is seen as the deepest and most developed market for emerging market depositary receipts.

"London is emerging as the euro centre for emerging equity trading, and our issuers, which already have GDRs on London, prefer to stick with a proven entity," Mr Kearns said.

Foreign investors can already buy the equity of Borsodchem either by purchasing its locally listed shares or the GDRs. But bankers say that, as more euro-zone investors benchmark their performance against euro-denominated indices, the ability to purchase emerging market equities denominated in euros will become more important.

Most emerging market funds benchmark their performance against a dollar-denominated index.

## WORLD BOND PRICES

### BENCHMARK GOVERNMENT BONDS

| Mar 29 | Red Date | Coupon | Bid Price | Bid Yield | Day chg yield | Wk chg yield | Month chg yld | Year chg yld |
|---|---|---|---|---|---|---|---|---|
| Australia | 01/01 | 6.750 | 105.3976 | [illegible] | -0.04 | -0.11 | -0.22 | -0.20 |
| | 08/08 | 8.750 | 123.7980 | 5.47 | -0.01 | -0.02 | -0.00 | -0.34 |
| Austria | 03/01 | 5.250 | 104.3100 | 2.93 | -0.04 | -0.17 | -0.32 | -1.12 |
| | 01/09 | 5.000 | [illegible] | 4.21 | +0.01 | +0.09 | +0.06 | -0.76 |
| Belgium | 03/01 | 5.000 | 103.7100 | 3.04 | -0.03 | -0.04 | -0.15 | -1.05 |
| | 03/09 | 3.750 | 95.5300 | 4.31 | +0.01 | +0.10 | +0.09 | -0.86 |
| Canada | 12/00 | 5.000 | 100.1000 | 4.95 | -0.01 | -0.17 | -0.35 | - |
| | 06/08 | 6.000 | 108.2500 | 5.12 | -0.01 | -0.13 | -0.24 | -0.22 |
| Denmark | 11/00 | 9.000 | 108.7200 | 3.33 | -0.08 | -0.02 | -0.29 | -0.82 |
| | 11/09 | 6.000 | 113.3300 | 4.40 | -0.05 | +0.04 | -0.04 | -0.73 |
| Finland | 06/00 | 4.000 | 101.2200 | 2.98 | -0.04 | -0.06 | -0.10 | -0.71 |
| | 04/09 | 5.000 | 105.3680 | 4.33 | +0.05 | +0.14 | +0.10 | -0.50 |
| France | 07/00 | 4.000 | 101.3200 | 2.92 | -0.04 | -0.10 | -0.17 | -1.13 |
| | 04/06 | 7.250 | 121.4600 | 3.73 | -0.04 | +0.07 | -0.02 | -0.93 |
| | 04/09 | 4.000 | 98.4900 | 4.19 | - | +0.11 | +0.10 | -0.73 |
| | 04/29 | 5.500 | [illegible] | 5.10 | +0.01 | +0.11 | +0.14 | -0.38 |
| Germany | 05/01 | 5.000 | 104.1000 | 2.98 | -0.02 | -0.00 | -0.19 | -0.91 |
| | 01/06 | 6.000 | 112.6700 | 3.83 | - | +0.05 | -0.06 | -0.87 |
| | 01/09 | 3.750 | 97.6000 | 4.06 | +0.01 | +0.06 | +0.02 | -0.84 |
| | 07/28 | 4.750 | 95.3900 | 5.05 | +0.02 | +0.11 | +0.09 | -0.40 |
| Greece | 03/00 | 9.800 | 100.3600 | 8.36 | +0.38 | +0.46 | -0.15 | -0.84 |
| | 01/08 | 8.300 | [illegible] | 6.08 | +0.07 | +0.25 | +0.03 | [illegible] |
| Ireland | 10/01 | 6.500 | 108.1900 | 3.10 | -0.03 | -0.04 | -0.19 | -1.36 |
| | 08/08 | 8.000 | 113.7500 | [illegible] | -0.01 | +0.06 | - | -0.82 |
| Italy | 07/01 | 4.500 | 103.0500 | 3.08 | -0.05 | -0.04 | -0.17 | -1.40 |
| | 07/03 | 4.500 | 104.2100 | 3.43 | -0.02 | -0.01 | -0.14 | -1.28 |
| | 05/09 | 4.500 | 101.7300 | 4.29 | +0.02 | +0.12 | +0.10 | -0.78 |
| | 11/27 | 6.500 | 117.9500 | 5.28 | +0.02 | +0.13 | +0.16 | -0.31 |
| Japan | 12/00 | 6.800 | 111.4330 | 0.19 | -0.01 | - | -0.14 | -0.49 |
| | 12/03 | 4.100 | 116.0610 | 0.84 | +0.03 | -0.03 | -0.28 | -0.40 |
| | 09/08 | 1.800 | 101.1910 | [illegible] | +0.02 | -0.02 | -0.22 | -0.02 |
| | 09/18 | 2.300 | 96.7080 | 2.51 | +0.01 | -0.06 | -0.27 | +0.01 |
| Netherlands | 01/01 | [illegible] | 110.3000 | [illegible] | -0.05 | -0.07 | -0.18 | -1.06 |
| | 07/08 | 3.750 | 96.3900 | [illegible] | - | +0.03 | +0.07 | -0.69 |
| New Zealand | 02/01 | 8.000 | 105.4903 | 4.84 | -0.05 | -0.06 | -0.29 | -0.02 |
| | 07/09 | 7.000 | 108.1103 | 5.81 | +0.01 | -0.02 | -0.05 | -1.20 |
| Norway | 05/01 | 7.000 | 104.3300 | 4.40 | +0.01 | -0.04 | -0.22 | +0.01 |
| | 05/09 | 5.500 | 104.4500 | 4.93 | +0.05 | +0.03 | -0.02 | -0.28 |
| Portugal | 03/00 | 5.375 | 102.2400 | 2.98 | -0.01 | +0.06 | -0.02 | -1.10 |
| | 06/08 | 5.375 | 108.1900 | 4.28 | -0.02 | +0.08 | +0.07 | -0.73 |
| Spain | 01/01 | 5.000 | 103.6500 | 2.91 | -0.07 | -0.06 | -0.18 | -1.21 |
| | 07/09 | 5.150 | 105.0400 | 4.32 | -0.02 | +0.09 | +0.04 | -0.00 |
| Sweden | 05/00 | 10.250 | 107.5253 | 3.07 | -0.03 | -0.12 | -0.27 | -1.61 |
| | 05/08 | 6.500 | 115.0500 | 4.45 | +0.02 | +0.11 | +0.07 | -0.79 |
| Switzerland | 06/00 | 4.500 | 103.6400 | 1.37 | -0.02 | -0.07 | +0.04 | -0.36 |
| | 01/08 | 4.250 | 115.3500 | 2.29 | +0.03 | +0.10 | +0.06 | -0.53 |
| UK | 11/01 | 7.000 | 105.3900 | 4.77 | -0.01 | -0.02 | -0.10 | -1.90 |
| | 12/03 | 6.500 | 107.8900 | 4.61 | -0.01 | +0.03 | -0.03 | -1.48 |
| | 12/09 | 5.750 | 110.0700 | 4.55 | - | +0.07 | +0.01 | -1.40 |
| | 12/28 | 6.000 | 123.7900 | 4.53 | +0.01 | +0.06 | +0.03 | -1.33 |
| US | 01/01 | 4.500 | 99.1240 | 5.00 | -0.02 | -0.06 | -0.14 | -0.65 |
| | 02/04 | 4.750 | 98.5114 | 5.10 | - | - | -0.11 | -0.64 |
| | 11/08 | 4.750 | 96.3758 | 5.23 | +0.02 | +0.00 | -0.06 | -0.51 |
| | 02/29 | 5.250 | 94.5428 | 5.63 | +0.03 | +0.06 | +0.07 | -0.35 |

London closing * New York closing. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

### 10 YEAR BENCHMARK SPREADS

| Mar 29 | Bid Yield | Spread vs Euros | Spread vs T-Bonds |
|---|---|---|---|
| Australia | [illegible] | +1.42 | +0.26 |
| Austria | 4.40 | +0.33 | -0.83 |
| Belgium | 4.30 | +0.23 | -0.93 |
| Canada | 5.13 | +1.06 | -0.10 |
| Denmark | 4.38 | +0.31 | -0.85 |
| Finland | 4.33 | +0.26 | -0.90 |
| France | 4.15 | +0.08 | -1.08 |
| Germany | 4.07 | - | -1.16 |
| Greece | 6.11 | +2.04 | +0.88 |
| Ireland | 4.22 | +0.15 | -1.01 |
| Italy | 4.31 | +0.24 | -0.92 |
| Japan | 1.71 | -2.36 | -3.52 |
| Netherlands | 4.21 | +0.14 | -1.02 |
| New Zealand | 5.81 | +1.74 | +0.58 |
| Norway | [illegible] | +0.86 | -0.30 |
| Portugal | [illegible] | +0.20 | -0.96 |
| Spain | 4.29 | +0.22 | -0.94 |
| Sweden | 4.48 | +0.41 | -0.75 |
| Switzerland | 2.49 | -1.58 | -2.74 |
| UK | 4.63 | +0.56 | -0.60 |
| US | 5.23 | +1.16 | - |

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

### EMERGING MARKET BONDS

| Mar 29 | Red date | Coupn | S & P Rating | Bid price | Bid yield | Day's chge yld | Mth's chge yld | Sprd vs US |
|---|---|---|---|---|---|---|---|---|
| **EUROPE** | | | | | | | | |
| Croatia | 02/02 | 7.000 | BBB- | 93.9000 | 9.44 | +0.24 | -0.03 | +4.41 |
| Poland | 07/04 | 7.125 | BBB- | [illegible] | 6.38 | -0.02 | +0.41 | +1.28 |
| Russia | 06/07 | 10.000 | n/a | 27.0900 | 41.87 | -1.05 | -1.91 | +36.69 |
| **LATIN AMERICA** | | | | | | | | |
| Argentina | 09/27 | 9.750 | BB | 82.8736 | 11.85 | +0.17 | -0.40 | +6.26 |
| Brazil | 05/27 | 10.125 | B+ | 70.5773 | 14.44 | -0.11 | -1.59 | +8.85 |
| Mexico | 05/26 | 11.500 | BB | 109.3865 | 10.45 | +0.16 | -0.45 | +4.86 |
| **ASIA** | | | | | | | | |
| China | 07/06 | 7.750 | BBB+ | 101.5030 | 7.45 | +0.03 | -0.28 | +2.30 |
| Philippines | 10/16 | 8.750 | BB+ | 93.6553 | 9.50 | +0.04 | -0.46 | +4.13 |
| Thailand | 04/07 | 7.750 | BBB- | 101.2438 | 7.54 | +0.04 | -0.45 | +2.36 |
| **AFRICA/MIDDLE EAST** | | | | | | | | |
| Lebanon | 07/00 | 9.125 | BB- | 101.5336 | 7.80 | -0.40 | +0.43 | +2.84 |
| South Africa | 10/06 | 8.375 | BB+ | 99.7454 | 8.42 | +0.14 | -0.94 | +3.27 |
| Turkey | 09/07 | 10.000 | B | 91.7631 | 11.55 | -0.05 | -0.34 | +6.37 |
| **BRADY BONDS** | | | | | | | | |
| Argentina | 03/23 | 5.750 | BB | 80.7500 | 9.13 | +0.07 | -0.38 | +3.62 |
| Brazil | 04/14 | 5.000 | B+ | 62.2500 | 13.48 | [illegible] | [illegible] | [illegible] |
| Mexico | 12/19 | 6.250 | BB | 78.5000 | 8.47 | -0.08 | -0.49 | +3.04 |
| Venezuela | 03/20 | 6.750 | B+ | 66.2500 | 10.86 | -0.22 | -0.54 | +5.41 |

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

### BOND FUTURES AND OPTIONS

**France**

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 94.44 | 94.42 | +0.09 | 94.52 | 94.10 | 26,321 | 79,907 |

LONG TERM EURO BOND OPTIONS (MATIF)

| Strike Price | Calls Apr | Calls May | Calls Jun | Puts Apr | Puts May | Puts Jun |
|---|---|---|---|---|---|---|
| 97 | - | - | 0.36 | - | - | - |
| 98 | - | - | 0.13 | 3.45 | 3.49 | - |
| 99 | - | - | 0.06 | 4.45 | 4.45 | - |
| 100 | - | - | 0.03 | 5.45 | 5.45 | - |

Est. vol. total. Calls n/a Puts n/a. Previous day's open int., Calls n/a Puts n/a

**Germany**

NOTIONAL EURO BUND FUTURES (EUREX) €100,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 113.97 | 113.59 | -0.50 | 113.99 | 113.32 | 606,532 | 536,230 |
| Sep | 114.12 | 113.76 | -0.45 | 114.13 | 114.00 | [illegible] | 4,310 |

NOTIONAL EURO BUND (BOBL) FUTURES (EUREX) €100,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 108.84 | 108.78 | -0.06 | [illegible] | 108.66 | [illegible] | 227,182 |

NOTIONAL EFB SWAP FUTURES (LIFFE)* 5yr 4.0% €100,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | | 101.27 | +0.09 | | | 0 | 214 |

NOTIONAL EFB SWAP FUTURES (LIFFE)* 10yr 4.5% €100,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | [illegible] | [illegible] | [illegible] | | | [illegible] | [illegible] |

* Traded on APT.

**Italy**

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

**Spain**

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

**UK**

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Jun | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Jun | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

* LIFFE futures also traded on APT.

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

| Strike Price | Calls | | | Puts | | |
|---|---|---|---|---|---|---|
| 11600 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 11650 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 11700 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 11750 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 11800 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

**US**

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

| | Open | Latest | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sep | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dec | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

**Japan**

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sep | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

**Euro**

€ BOND FUTURES (MATIF) €100,000

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### US CORPORATE BONDS

| Mar 29 | Red date | Coupon | S & P Rating | Bid price | Bid yield | Day's chge yield | Mth's chge yld | Sprd vs Govts |
|---|---|---|---|---|---|---|---|---|
| **UTILITIES** | | | | | | | | |
| Pac Bell | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| NY Tel | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| CWE | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| **FINANCIALS** | | | | | | | | |
| GECC | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Banc One | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| CNA Fin | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| **INDUSTRIALS** | | | | | | | | |
| WMX Tech | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Wal Mart | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dayton Hud | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| **AGENCIES** | | | | | | | | |
| FHLMC | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| SLMA | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FNMA | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| FFCB | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| **HIGH YIELD** | | | | | | | | |
| Stone Cont | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| AK Stl | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Pacalis | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

### US INTEREST RATES

[illegible]

### INTERNATIONAL BONDS

[illegible]

## UK BONDS

### FTSE Actuaries Government Securities

[illegible]

FT Fixed Interest Indices

[illegible]

## UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

## CURRENCIES & MONEY

# Kosovo looms larger in traders' sights

**MARKETS REPORT**

By Alan Beattie

A growing perception that the Kosovo conflict could inflict substantial damage on prospects for European growth helped drive the euro down to another record low yesterday.

Many analysts continued to argue that fundamental problems in the euro-zone economy were the prime mover of the fall. But most agreed that the Balkan tension was no great help to the struggling currency.

If Kosovo was to blame, it showed a distinct raising of the stakes as its fairly muted effects of last week on the euro gave way to more severe damage. The euro dropped through the $1.07 level for the first time, as US traders made large sales of the currency. It closed in London at $1.072.

Meanwhile the Greek drachma also fell as analysts began to worry about the potential impact on other countries in the region of refugees fleeing from Kosovo. It broke through Dr325 against the euro, which had proved an effective support level last week, to reach Dr325.947 by the end of London trading.

■ The euro's fall came in a flurry of activity at the start of the US session after a quiet morning in London.

One trader said that some judicious execution of commercial business by euro-zone central banks early in European trading had kept the euro quite well supported around the $1.0760-$1.0770 range. "But then the US came in and the currency began to sell off," he said.

He added that the shooting down of a US fighter over Serbia over the weekend appeared to made the US more aware of the extent of the conflict. "Last week most New Yorkers might have thought that Kosovo was somewhere in Manhattan," he said. "Now they know exactly where it is."

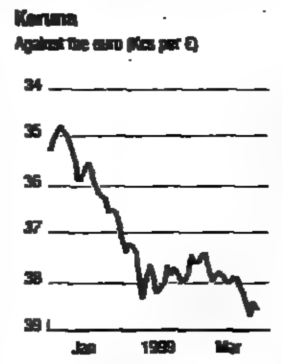
The uncertainty of the situation was underlined by a rise in one-month euro-dollar foreign exchange option volatilities, which have risen from around 9 per cent a couple of weeks ago to around 10 yesterday.

■ But some analysts said that Kosovo was no more than an unwelcome addition to the main problem – more evidence that the euro-zone economy would get worse before it got better.

"Kosovo has injected volatility into the currency," said Philippe d'Arvisenet, chief economist of the Banque Nationale de Paris.

Koruna

Against the euro (Kcs per €)




Source: Datastream/ICV

"But economic fundamentals are the main cause of its weakness."

Yesterday's instalment of gloom came in the form of the INSEE survey, which showed French manufacturers sinking further into a slough of despond about economic prospects.

The large drop in the euro came several hours after the survey's release. But Peter von Maydell, senior currency economist at Credit Suisse First Boston in London, said that this was quite typical. "Both the Ifo and the INSEE surveys, which are the key leading indicators for the euro-zone, often do not see a market reaction for several hours after their release," he said. The market seemed to have "a slow learning curve", he added.

Mr von Maydell said that if past experience was any guide, the weakness of recent Ifo and INSEE surveys meant that euro-zone interest rates should fall to 2 per cent later this year.

Despite the fall in the euro, interest rate futures markets are stubbornly resistant to this possibility. The Euribor futures market shaved another couple of basis points off the front end of the curve , but continued to price in no more than a single small cut in rates over the next few months. The decoupling of the currency and fixed income markets was "something of a puzzle," Mr von Maydell said.

■ The usual eastern European suspects also suffered from Kosovo yesterday.

The Czech koruna, Polish zloty and Hungarian forint all fell as the possibility of a prolonged struggle and Russia-Nato tension darkened prospects for the region.

The forint came under some of the worst pressure, Hungary having a border with Serbia. At the end of London trading yesterday it was at Ft254.4 against the euro. The koruna and zloty fell to Kč38.5871 and 4.2825 zlotys against the euro.

### ■ POUND IN NEW YORK

| Mar 29 | —Latest— | — Prev. close — |
|---|---|---|
| £ spot | 1.6145 | 1.6225 |
| 1 mth | 1.6140 | 1.6219 |
| 3 mth | 1.6136 | 1.6214 |
| 1 yr | 1.6170 | 1.6342 |

### ■ OTHER CURRENCIES

| Mar 29 | £ | $ |
|---|---|---|
| Czech Rp | 58.2374 - 58.3196 | 35.8950 - 36.0250 |
| Hungary | 383.886 - 384.551 | 237.200 - 237.530 |
| Iran | 4857.00 - 4834.00 | 3000.00 - 3000.00 |
| Kuwait | 0.4936 - 0.4946 | 0.3050 - 0.3055 |
| Peru | 5.4436 - 5.4528 | 3.3640 - 3.3680 |
| Poland | 6.4599 - 6.4760 | 3.9920 - 4.0000 |
| Russia | 40.5353 - 40.6760 | 25.0500 - 25.2500 |
| UAE | 5.9432 - 5.9469 | 3.6727 - 3.6735 |

### POUND SPOT FORWARD AGAINST THE POUND

| Mar 29 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | Day's mid low | One month Rate | One month %PA | Three months Rate | Three months %PA | One year Rate | One year %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Europe | | | | | | | | | | | | | |
| Austria* | (Sch) | 20.7823 | +0.0149 | 733 - 913 | 20.8290 | 20.6982 | 20.7418 | 2.3 | 20.6654 | 2.3 | 20.3647 | 2.1 | 102.3 |
| Belgium* | (BFr) | 60.9258 | +0.0439 | 994 - 522 | 61.0630 | 60.6550 | [illegible] | 2.3 | 60.5820 | 2.3 | 59.6724 | 2.1 | 101.7 |
| Denmark | (DKr) | 11.2255 | +0.0086 | 195 - 315 | 11.2532 | 11.1746 | 11.2074 | 1.9 | 11.1734 | 1.8 | 11.0381 | 1.7 | 104.9 |
| Finland* | (FM) | 8.9799 | +0.0065 | [illegible] | 9.0000 | 8.9400 | 8.9624 | 2.3 | 8.9294 | 2.3 | 8.7952 | 2.1 | 80.6 |
| France* | (FFr) | 9.9070 | +0.0071 | 027 - 113 | 9.9292 | 9.8631 | 9.8877 | 2.3 | 9.8512 | 2.3 | 9.7031 | 2.1 | 105.0 |
| Germany* | (DM) | 2.9539 | +0.0021 | 526 - 552 | 2.9613 | 2.9400 | 2.9482 | 2.3 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

### DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Mar 29 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | Day's mid low | One month Rate | One month %PA | Three months Rate | Three months %PA | One year Rate | One year %PA | J.P. Morgan Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Europe | | | | | | | | | | | | | |
| Austria* | (Sch) | 12.8387 | +0.0203 | [illegible] | 13.0000 | 12.7367 | 12.819 | 1.9 | 12.7740 | 2.0 | 12.5573 | 2.2 | 102.1 |
| Belgium* | (BFr) | 37.6411 | +0.0597 | [illegible] | 37.7610 | 37.4840 | 37.5804 | 1.9 | 37.4525 | 2.0 | 36.8133 | 2.2 | 101.9 |
| Denmark | (DKr) | 6.9353 | +0.0113 | [illegible] | 6.9552 | 6.8911 | 6.9264 | 1.5 | 6.9071 | [illegible] | 6.8102 | 1.8 | 104.3 |
| Finland* | (FM) | 5.5480 | +0.0008 | [illegible] | 5.5658 | 5.5130 | 5.5391 | 1.9 | 5.5199 | 2.0 | 5.426 | 2.2 | 80.0 |
| France* | (FFr) | 6.1208 | [illegible] | 196 - 219 | 6.1402 | 6.0821 | 6.1109 | 1.9 | 6.0899 | 2.0 | 5.9862 | 2.2 | 104.5 |
| Germany* | (DM) | 1.8250 | +0.0029 | [illegible] | 1.8306 | 1.8135 | 1.822 | 1.9 | 1.8158 | 2.0 | 1.7849 | 2.2 | 102.4 |

### WORLD INTEREST RATES

#### MONEY RATES

#### INTERNATIONAL CURRENCY RATES

■ THREE MONTH SWISS FRANC OPTIONS (LIFFE) SFr1m 100 - rate

| Strike Price | CALLS Jun | CALLS Sep | CALLS Dec | PUTS Jun | PUTS Sep | PUTS Dec |
|---|---|---|---|---|---|---|
| 98750 | 0.145 | 0.170 | 0.125 | 0.155 | 0.270 | 0.585 |
| 98875 | 0.080 | | | 0.215 | | |

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 3580 Puts 3580

### CROSS RATES AND DERIVATIVES

#### EXCHANGE CROSS RATES

### UK INTEREST RATES

#### LONDON MONEY RATES

#### EMS EUROPEAN CURRENCY UNIT RATES

#### BASE LENDING RATES



Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

## COMMODITIES & AGRICULTURE

# Copper loses most of last week's gains

**MARKETS REPORT**

By Paul Solman

Base metals fell on the London Metal Exchange yesterday, with the flagship copper contract giving up most of the gains made during the middle of last week.

Analysts said that the outlook for industrial metals remained poor, with most producers failing to respond to lower prices with production cuts.

At the close of trading yesterday, three-month copper was $1,407 a tonne, down $47 from Friday's close, while nickel was off $165 at $5,030 a tonne and aluminium was $16 lower at $1,243 a tonne.

Crude oil prices were firm in London yesterday. The Brent blend benchmark May contract rose to $14.65 a barrel at one stage on the International Petroleum Exchange, although in late trading it had fallen back to $14.40 compared with Friday's close of $14.41.

The price has risen 40 per cent since February, and was buoyed last week by leading oil producers' agreement to cut output by more than 2.1m barrels a day.

Among soft commodities, wheat consumption will reach a record 592m tonnes next season, according to the International Grains Council.

Releasing its first estimate of world wheat supply and demand for 1999/2000, the IGC said that population growth was likely to boost food use, although use of wheat as animal feed could fall because of the continued decline in demand from countries in the former Soviet Union.

Production is forecast to fall next season to 569m tonnes compared with 583m in 1998/99. Several of the main producing countries would have smaller harvests because of wet weather and a drop in the amount of land being given over to planting wheat, said the IGC.

As a result, world wheat stocks are forecast to fall to their lowest since 1980 at 106m tonnes, with stocks in the five main exporters – the European Union, the US, Argentina, Australia and Canada – declining almost 20 per cent to 46m tonnes, it added.

Robusta coffee futures made modest gains on the London International Financial Futures and Options Exchange yesterday, the most actively traded May contract closing at $1,536, up $11 from last week's finish.

# Hopes rise of cuts from big copper groups

By Gillian O'Connor, Mining Correspondent

For weeks now the world copper industry has been casting baleful glances towards the south-west of the US, willing one of the four big mining groups with interests in Arizona, Nevada and Texas to cut back production.

The four groups – BHP, Phelps Dodge, Asarco and Cyprus Amax – are proving painfully slow in making any decisions over closures due to the vast costs. But the industry has been encouraged by recent comments from BHP, and is hoping they will act as a catalyst for consolidation.

Copper, like many base metals is heading for a substantial production surplus this year. However, unlike nickel producers, which are cutting back, most copper miners are producing as much as they can, and the copper price has fallen 9 per cent from the end of last year.

Industry leaders claim the aim is to maintain low prices and force high-cost producers to close. Rio Tinto boss Bob Wilson recently said he hoped the copper price would stay low enough, long enough to achieve a thorough shake-out.

The four miners in the south-west of the US are the most obvious high-cost producers. Their problem stems partly from the strength of the dollar, but it is also the consequence of a local imbalance between mine production and smelting capacity.

The five smelters operating in the area have total capacity of 1.15m tonnes this year but the local mines will only produce 875,000 tonnes, leaving the smelters dependent on expensive imported material to bridge the gap.

George Cheveley, copper research manager at CRU International, notes that the pressures on each company are slightly different.

For BHP, which has one smelter with a capacity of 370,000 tonnes per year and two mines producing 175,000 tonnes, closure is a theoretical possibility. But it would probably much prefer to to reach a deal with one of its rivals.

The company bought the San Manuel smelter as part of its pricey Magma Copper acquisition, and has written off a large part of the cost already. San Manuel is the cleanest and most efficient local smelter.

Paul Anderson, BHP's new CEO, has said that "the North American copper assets are my absolute top priority ... it is my intention to deal with them in this quarter".

Phelps Dodge's two activities are roughly in balance, while Asarco has one operating smelter with a capacity of 180,000 tonnes per year and two low-grade, high-cost mines with a capacity of 225,000 tonnes.

Cyprus Amax's activities are roughly in balance.

There are rumours of behind the scenes negotiations among the companies. One possibility would be for BHP either to sell its local assets to one of the other companies or to agree to a joint venture.

This could leave BHP's San Manuel smelter operating, while one of the other smelters and perhaps some of the higher-cost mines close. Phelps Dodge is the favoured partner.

However, Larry Kaplan of Flemings Research warns: "BHP may want a quick resolution, but there is no comparable time pressure on the others."

# Gabriel in search for mining angel

**Mining juniors are out of favour but one is fighting back, says Gillian O'Connor**

Frank Timis waves at the rugged Transylvanian skyline: "That mountain used to be over 1,000 metres high. We took off the top hundred metres or so. Eventually we may need to move the village," he says.

For a man running a "junior" mining company, Frank Timis thinks on a lavish scale, both environmentally and financially.

Today, his gold exploration company, Gabriel Resources, is just one of perhaps 1,000 struggling junior mining companies listed on the speculative Vancouver Stock Exchange.

This summer, he plans to get Gabriel traded on London's Junior Alternative Investment Market, and to pull in US$18m or so from a leading international mining company; next year, he hopes to move up to the main UK market.

But his timing could hardly be worse. Junior mining companies – the polite term for explorers with great expectations but little substance – have been deeply out of favour since the 1997 Bre-X scandal.

Bre-X, another Canada-listed gold explorer, claimed to have found the richest deposit in the world at Busang in the middle of the Borneo jungle in Indonesia.

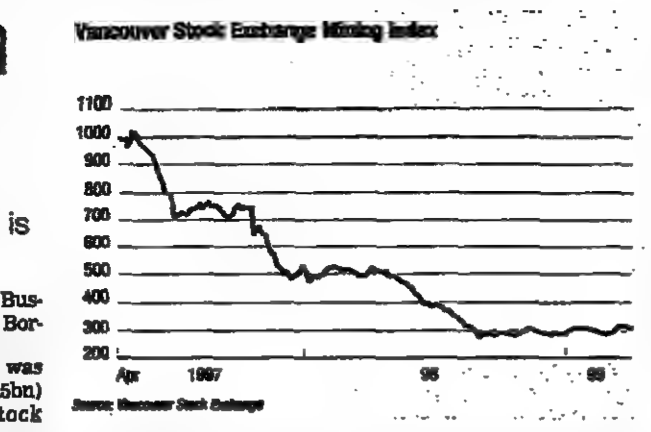
By 1996, the company was valued at C$6.8bn (US$4.5bn) on the Toronto Stock Exchange. In 1997 the shares collapsed worthless, after it became clear that Busang was a fraud.

The credibility gulf created by Bre-X has been compounded by falling metal prices, which have made it harder to make money from mining.

Some juniors have become dormant. Others have turned to more glamorous or more lucrative pursuits. Cornucopia Resources of Vancouver plans to start providing internet services and change its name to Stockscape.com.Inc.

A fortunate few juniors have produced exploration results that have been tempting enough to attract generous bids from leading mining companies.

Earlier this year, Argentina Gold repelled a bid from one North American major, Barrick, and accepted a higher offer from another, Homestake. Sutton Resources, with a prospect in Tanzania, gratefully succumbed to Barrick.




Frank Timis is more ambitious. He aims to allow some lucky major to help him develop Gabriel's Transylvanian project in return for an equity stake, but keep control of the company himself. Delusions of grandeur? Perhaps not.

There is no doubt there is gold in the Transylvanian mountains. People have been mining gold in the area for 2,000 years.

Roman emperor Hadrian fought a war with the Dacians to get control of it, and modern tourists can walk through two kilometres of remarkably well preserved Roman underground galleries. More recent work by the state mining company has left a larger labyrinth of tunnels, which Gabriel's geologists are using when taking their rock samples.

The existence of these workings makes it relatively cheap for Gabriel to find out what its four sites at Rosia Montana contain and modern mining methods should enable the development team to extract a higher proportion of the gold profitably than their predecessors.

Frank Timis, the Australian son of a Romanian executed under the Ceausescu regime, is also clearly in favour with today's authorities. He is on hugging terms with the boss of the loss-making local state mining company, the county governor, and the president of the National Agency for Mineral Resources.

Every stock promoter needs a "story" and Timis, who has given guided tours of Rosia Montana to several leading gold producers, hopes to have indicated resources of 5m ounces of gold by mid-summer and 10m by the year-end. But many investors are wary of eastern Europe, and there are 999 other mining juniors with stories to sell. As always greed and fear will have to slug it out.

# Malaysia to withhold rubber

By Sheila McNulty in Singapore and Paul Solman in London

Malaysia is to withhold its rubber from the export market as part of a package of measures aimed at pushing up prices and rescuing its ailing industry.

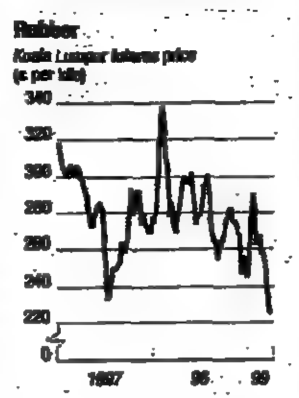
It might also buy locally produced rubber from smallholders at higher prices than those in the international market, and impose a temporary ban on imports of natural rubber, which amount to about 550,000 tonnes each year.

The measures, announced by the Lim Keng Yaik, primary industries ministry, come as world rubber prices remain low.

Kuala Lumpur's benchmark RSS1 (April) rubber contract ended last week at 225.50 cents a kilogram, more than 30 per cent below its level just a year ago.

Asia's economic crisis has cut demand and analysts expect consumption to stay depressed at least until next year. Asia accounts for about a third of world consumption of natural rubber.

Malaysia is the world's third biggest rubber producer, after Indonesia and Thailand, producing about 900,000 tonnes a year. Last year, it exported 450,000 tonnes. Smallholders produce 85 per cent of the country's rubber.




"We have to act fast as smallholders are already abandoning their small plots of land to look for jobs elsewhere," Mr Lim said.

"While we have appealed to Thailand and Indonesia to reduce output, we are not placing much hope on them. As such, we have to come up with some schemes to help our local producers receive remunerative prices," he added.

The measures are subject to cabinet approval.

Falling prices have divided the world's leading rubber producers. Both Malaysia and Thailand have said they will withdraw from the International Natural Rubber Organisation because of what they see as the group's failure to support world rubber prices.

## COMMODITIES PRICES

### BASE METALS

**LONDON METAL EXCHANGE**

(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne) · ALUMINIUM ALLOY ($ per tonne) · LEAD ($ per tonne) · NICKEL ($ per tonne) · TIN ($ per tonne) · ZINC, special high grade ($ per tonne) · COPPER, grade A ($ per tonne)

[illegible]

LME AM Official £/$ rate: n/a

LME Closing £/$ rate: 1.6170

HIGH GRADE COPPER (COMEX)

[illegible]

### PRECIOUS METALS

LONDON BULLION MARKET

[illegible]

### Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.) · PLATINUM NYMEX (50 Troy oz.; $/troy oz.) · PALLADIUM NYMEX (100 Troy oz.; $/troy oz.) · SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

[illegible]

### ENERGY

CRUDE OIL NYMEX (1,000 barrels, $/barrel) · CRUDE OIL IPE ($/barrel) · HEATING OIL NYMEX (42,000 US galls, c/US galls) · GAS OIL IPE ($/tonne) · NATURAL GAS IPE · NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu) · UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

[illegible]

### GRAINS AND OIL SEEDS

WHEAT LIFFE (100 tonnes; £ per tonne) · WHEAT CBT (5,000bu min; cents/60lb bushel) · MAIZE CBT (5,000 bu min; cents/56lb bushel) · BARLEY LIFFE (100 tonnes; £ per tonne) · SOYABEANS CBT (5,000bu min; cents/60lb bushel) · SOYABEAN OIL CBT (60,000lbs; cents/lb) · SOYABEAN MEAL CBT (100 tons; $/ton) · POTATOES LIFFE (20 tonnes; £ per tonne) · FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]

### PULP AND PAPER

PULPEX OMLX (USD; 24 air dry tons)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Jun | 462.00 | -1.00 | 462.00 | 462.00 | 6 | 535 |
| Sep | 479.00 | -2.00 | 481.00 | 479.00 | 20 | 126 |
| Total | | | | | n/a | n/a |

FUTURES DATA

*All futures data supplied by CMS.*

### SOFTS

COCOA LIFFE (10 tonnes; £/tonne) · COCOA CSCE (10 tonnes; $/tonne) · COCOA (ICCO) (SDR's/tonne) · COFFEE LIFFE (5 tonnes; $/tonne) · COFFEE 'C' CSCE (37,500lbs; cents/lbs) · COFFEE (ICO) (US cents/pound) · WHITE SUGAR LIFFE (50 tonnes; $/tonne) · SUGAR '11' CSCE (112,000lbs; cents/lbs) · COTTON NYCE (50,000lbs; cents/lbs) · ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

### INDICES

Reuters (Base: 18/9/31 = 100)

| Mar 29 | Mar 26 | month ago | year ago |
|---|---|---|---|
| 1348.7 | 1338.3 | 1411.2 | 1676.8 |

CRB Futures (Base: 1967 = 100)

| Mar 26 | Mar 25 | month ago | year ago |
|---|---|---|---|
| 191.17 | 191.33 | – | – |

GSCI Spot (Base: 1970 = 100)

| Mar 26 | Mar 25 | month ago | year ago |
|---|---|---|---|
| 152.21 | 149.50 | 139.81 | 170.88 |

LME WAREHOUSE STOCKS (tonnes)

| | | | |
|---|---|---|---|
| Aluminium | +1,775 | to | 815,375 |
| Aluminium alloy | –480 | to | 70,020 |
| Copper | [illegible] | to | 714,150 |
| Lead | –100 | to | 100,550 |
| Nickel | +600 | to | 55,200 |
| Zinc | +675 | to | 308,450 |
| Tin | +75 | to | 9,085 |

**Minor Metals** from Metal Bulletin

European free market, $ per pound in warehouse. Antimony: 99.65%, $ per tonne, 1,290-1,350 (1,390-1,450). Bismuth: min. 99.99%, tonne lots, 3.10-2.18 (3.10-3.25). Cadmium: min. 99.95%, cents a pound, 20-24. Cobalt: MB free market, min. 99.8%, 17.00-18.00 (17.30-18.20), min. 99.3%,14.50-15.80 (14.80-16.00). Mercury: min. 99.99%, $ per 76 pound flask, 135-143 (137-145). Molybdenum: drummed molybdic oxide, 2.70-2.85 (2.80-2.95). Selenium: min. 99.5%, 1.50-2.40 (1.40-2.30). Tungsten ore: 33-44. Uranium: Nuexco, unrestricted exchange value 8.50.

### MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs) · LEAN HOGS CME (40,000lbs; cents/lbs) · PORK BELLIES CME (40,000lbs; cents/lbs)

[illegible]

### LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

ALUMINIUM (99.7%) LME · COPPER (Grade A) LME · COFFEE LIFFE · COCOA LIFFE · BRENT CRUDE IPE

[illegible]

### LONDON SPOT MARKETS

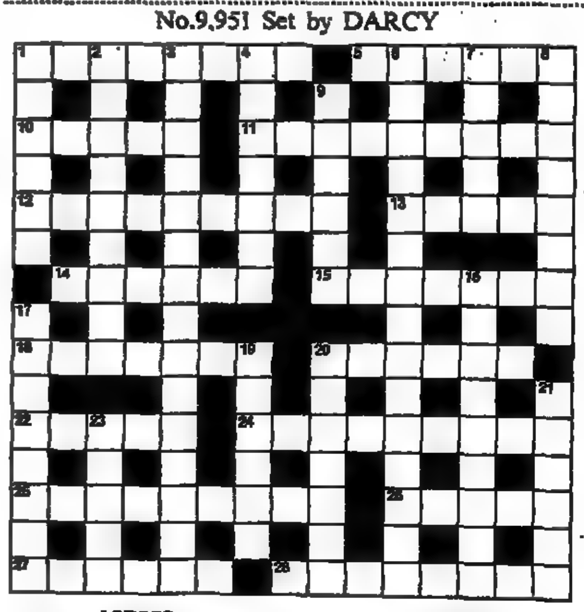
CRUDE OIL FOB (per barrel) · OIL PRODUCTS NWE prompt delivery CIF (tonne) · NATURAL GAS (Pence/therm) · OTHER

[illegible]

**JOTTER PAD**

## CROSSWORD

No.9,951 Set by DARCY



**ACROSS**

1 Wrong and outrageous to make comeback being very high (8)
5 Has one rejected rubbish I'd wrote, finally? (6)
10 Look for underlying current in Windows extras (5)
11 A minor storm (9)
12 Legally bound with German involved, subject to restrictions (9)
13 Was inclined to be thin, gaining weight at last (5)
14 Canopy with huge gap? Not to start with (6)
15 He wrote outrageous book – in the forefront, in retrospect (7)
18 Gloss over how items disappear, including registered (7)
20 Trim some dense foliage (6)
22 Selfish neighbour given brief time for recalling past (5)
24 Don should be given a chair (9)
25 Building up evidence of one's creative ability (9)
26 Capital has got invested in US city (5)
27 You shouldn't do this, to be popular and healthy! (6)
28 Vet Dante puzzle, finding serious axe to grind (8)

**DOWN**

1 Dodgy deal – it has strings attached (6)
2 Means to cut growth of garden centres (9)
3 Is it paid using current account? (10,4)
4 Get a half-bottle, to get drunk – put it in this? (4,3)
6 Type of name one may be called after wedding – shotgun variety (6-9)
7 Rum served in Cuba, if a treat's to be set up? (5)
8 Type of pronoun used for member of the family (8)
9 Admit defeat about characteristic tendency (4,2)
16 Set motorcycle going, wanting thrills with loose woman (4-5)
17 Charismatic chap given lass not completely corrupted (8)
19 Symbol of Anglo-European unity? (6)
20 Dog with an old tax obligation (7)
21 Force, all at sea, give a prosecuting officer some fire-power (6)
23 Hard mineral first mentioned in book of the Bible (5)

Solution to Saturday's prize puzzle on Saturday April 10.
Solution to yesterday's prize puzzle on Monday April 12.

*For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.*

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

## OFFSHORE AND OVERSEAS

### BERMUDA (FSA RECOGNISED)

### BERMUDA (REGULATED)(**)

### CAYMAN ISLANDS (REGULATED)(**)

### GUERNSEY (FSA RECOGNISED)

### GUERNSEY (REGULATED)(**)

### IRELAND (FSA RECOGNISED)

### IRELAND (REGULATED)(**)



### ISLE OF MAN (FSA RECOGNISED)

### ISLE OF MAN (REGULATED)(**)

### JERSEY (FSA RECOGNISED)

# FT MANAGED FUNDS SERVICE

## Offshore Funds and Insurances

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## JERSEY (REGULATED)(**)

## LUXEMBOURG (FSA RECOGNISED)

## LUXEMBOURG (REGULATED)(**)

## OFFSHORE INSURANCES

# FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

[illegible]



[illegible]

OTHER OFFSHORE FUNDS

[illegible]

# LONDON SHARE SERVICE

## ALCOHOLIC BEVERAGES

| | Notes | Price | + or - | 52 week high | 52 week low | Volume '000s | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| Allied Domecq | †N | 459½xd | −5½ | 645 | 385 | 4,579 | 6.9 | 11.6 |
| Bulmer (HP) | | 367½ | −1 | 370½ | 279½ | 1 | 6.1 | 13.7 |
| Burn Stewart | | 11½ | — | 27½ | 7 | 148 | — | — |
| Diageo | | 694xd | −10 | *795 | 476 | 6,165 | 2.7 | 17.0 |
| Glenmorangie A | † | 560 | — | 908 | 550 | — | 3.2 | 15.2 |
| B | † | 667½ | — | 950 | 657½ | — | 1.4 | 38.3 |
| Highland | | 231½ | — | 325 | 225 | 91 | 5.0 | 10.6 |
| 5¼pc Cnv Sub Bd | | 98 | — | 100½ | 90½ | — | 5.9 | — |
| Kirin Y | | 738½xd | +5 | 814¼ | 457¼ | — | 0.8 | 58.0 |
| Merrydown | | 25 | — | 54½ | 18½ | 3 | — | ϕ |
| Seagram C$ | | £39⅞ | | £39⅞ | £14⅜ | — | 0.9 | — |
| South African Brews | | 632 | −7½ | 595½ | 433 | 1,438 | — | — |

## BANKS, RETAIL

| | Notes | Price | + or - | 52 week high | 52 week low | Volume '000s | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| ABN Amro Fl | | £12⅞ | +⅛ | *£16⅛ | £8⅞ | — | 3.0 | 15.0 |
| ANZ A$ | | 449¼ | +3¼ | 459¼ | 293¼ | — | 4.5 | ϕ |
| Abbey National | ♣V | 1278xd | −13 | 1399 | 860 | 1,616 | 3.0 | 17.6 |
| Alliance & Leicester | ♣V | 855 | −13½ | 875 | 683 | 588 | 3.1 | 15.4 |
| Allied Irish I£ | | 1056½xd | −1 | 1262½ | 702 | — | 2.3 | ϕ |
| Anglo Irish I£ | | 178xd | — | 197½ | 118 | 111 | 2.9 | 17.0 |
| Asahi Y | | 312¼ | — | 355 | 140 | — | 1.0 | — |
| Banco Bilbao Viz Pta | | [illegible] | | [illegible] | [illegible] | — | 1.5 | 27.9 |
| Banco Santander Pta | | £12¼ | | *£17⅜ | £7¾ | — | 1.8 | ϕ |
| Bank Ireland I£ | | 1249 | +6½ | 1487½ | 882½ | — | 2.2 | 20.5 |
| Bank Scotland | | 830½ | +3 | 948 | 457 | 2,618 | 1.6 | 20.8 |
| 9¼pc Ird Pref | | 172 | — | 174 | 153¼ | — | 6.7 | — |
| 9¼pc Ird Pref | | 174½ | — | 183¼ | 162½ | — | 7.0 | — |
| Bk of Tokyo Mitsubishi Y | | [illegible] | | [illegible] | [illegible] | — | 0.5 | ϕ |
| Barclays | | 1709xd | −8 | 1950 | 827 | 2,395 | 3.3 | 19.1 |
| Dai-Ichi Kangyo Y | | [illegible] | | [illegible] | [illegible] | — | 1.1 | — |
| Deutsche DM | | [illegible] | | [illegible] | [illegible] | — | 2.3 | — |
| Espirito Santo Fnl US$ | | [illegible] | | [illegible] | [illegible] | — | 3.9 | ϕ |
| First Active | | 265½xd | −6 | 353½ | 229½ | 10 | 0.7 | 11.1 |
| Fuji Y | | 361¼ | −11½ | 399 | 112½ | — | 1.2 | — |
| HSBC (HK$10) | ♣V | 1929xd | +10 | 1974 | 941 | 969 | 3.1 | 20.1 |

## CONSTRUCTION - Continued

| | Notes | Price | + or - | 52 week high | 52 week low | Volume '000s | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| SGB Group | | 230xd | — | 288 | 146½ | — | 3.5 | ϕ |
| Swan Hill | | 60½xd | −¼ | 84½ | 32½ | 45 | 5.5 | ϕ |
| Tay Homes | | 113½ | −3 | 132½ | 105½ | — | 8.6 | — |
| Taylor Wood | | 181 | +2 | 238 | 133½ | 513 | 3.1 | 10.4 |
| Tilbury Douglas | | 235xd | −1½ | *388 | 206½ | 25 | 4.7 | ϕ |
| Try | | 21xd | — | 27½ | 12½ | 37 | 5.2 | 4.6 |
| VHE | | 28½ | — | 112½ | 20½ | — | 6.1 | 5.1 |
| Vibroplant | | 52 | — | 88 | 51½ | — | 9.7 | 25.1 |
| Wainhomes | | 137½xd | — | 139½ | 90½ | 3 | 5.5 | 11.3 |
| Ward Hldgs | | 40xd | — | 60 | 25½ | 30 | 5.0 | — |
| Westbury | | 255½ | +10½ | 287½ | 145 | 163 | 3.7 | 10.4 |
| Wiggins Group | | 14¼ | +¼ | 16 | 9¼ | 3,015 | — | 28.9 |
| Wilson (Connolly) | | 147½ | — | 178½ | 95½ | 2,126 | 4.5 | 9.2 |
| Wilson Bowden | | 701½ | +2½ | 733 | 485 | 67 | 2.3 | 10.4 |
| Wimpey (G) | | 153½xd | +4 | 153½ | 90½ | 856 | 4.3 | 8.7 |

## DISTRIBUTORS

| | Notes | Price | + or - | 52 week high | 52 week low | Volume '000s | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| Abacus Polar | | 123½ | +2½ | 135 | 75 | 18 | 6.7 | 11.1 |
| Abbeycrest | | 103½ | — | 163½ | 97½ | — | 5.6 | 8.0 |
| Acal | | 427½ | −2½ | 440 | 233½ | — | 3.3 | 14.1 |
| Action Computer Supls | | 232 | — | 257½ | 165 | 2 | 1.6 | 18.3 |
| Adam & Harvey | | 145 | +5 | 340 | 110 | 5 | 14.8 | 3.6 |
| African Lakes | | 52½ | — | 62½ | 47½ | — | — | — |
| Alexanders | | 16 | +¼ | 24½ | 12½ | — | — | — |
| Ass Br Eng | | 0½ | — | 1½ | 0½ | 222 | — | 9.2 |
| Autobacs Sevn | | £23½ | +1½ | £23⅜ | £13½ | — | 0.8 | 23.3 |
| BSS | | 300½ | — | 400 | 300 | — | 7.7 | 11.7 |
| Bagues (C) | | 46 | — | 110½ | 41½ | 104 | 7.9 | ϕ |
| 5.8p pNem Pf | | 90 | −½ | 151½ | 76½ | — | 8.1 | — |
| For Boyd Grp see under AIM | | | | | | | | |
| Brammer | | 456xd | +5 | 735 | 304 | 36 | 4.2 | ϕ |
| Bridgend | | 6 | — | 16½ | 5½ | 0.380 | 4.2 | — |
| Brit Fittings | | 115 | −1½ | 115½ | 65½ | 35 | 5.5 | 11.5 |
| Caffyns | | 292½ | — | 372½ | 275 | — | 6.0 | 10.1 |
| Caldwell Invs | | 27 | — | 41½ | 25½ | — | 4.5 | 27.7 |
| Camerdale | | 116 | +3 | 175½ | 112½ | 40 | 4.8 | 9.5 |

## ENGINEERING - Continued

## FOOD PRODUCERS - Continued

## INVESTMENT TRUSTS

## INVESTMENT TRUSTS - Continued

## BREWERIES, PUBS & REST

## BUILDING MATS. & MERCHANTS

## CHEMICALS

## CONSTRUCTION

## DIVERSIFIED INDUSTRIALS

## ELECTRICITY

## ELECTRONIC & ELECTRICAL EQPT

## ENGINEERING

## GAS DISTRIBUTION

## HEALTH CARE


## ENGINEERING - Continued

## HEALTH CARE - Continued

## ENGINEERING, VEHICLES

## HOUSEHOLD GOODS & TEXT

## EXTRACTIVE INDUSTRIES

## INSURANCE

## FOOD PRODUCERS

## INV TRUSTS SPLIT CAPITAL

# LONDON SHARE SERVICE

## OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices

| | Notes | Price | + or - | 52 week high | low | Yld Gr's | NAV | Dis or Pm(-) |
|---|---|---|---|---|---|---|---|---|
| Approved by the Inland Revenue | | | | | | | | |
| Aberdeen Emg Asia | § | 23¼ | --- | 29¾ | 13½ | - | - | - |
| [illegible] Japan Gwth Fd | | 397 | +1 | 397 | 158 | - | 486.5 | 18.4 |
| Warrants | | 28½ | +½ | 25¼ | [illegible] | - | - | - |
| Baring Emrg Euro | § | 92 | -1¼ | 110 | 55 | - | 111.3 | 17.4 |
| Warrants | | 47¼ | --- | 67½ | 29¼ | - | - | - |
| Brazilian IT | N | 35½ | --- | 61¼ | 19¾ | 3.1 | - | - |
| Warrants | | 6 | --- | 30½ | [illegible] | - | - | - |
| Central Euro Gwth | § | 35¾ | +¼ | 64¼ | 26¼ | - | 44.6 | 19.8 |
| Warrants | | 0¼ | --- | 11½ | 0¼ | - | - | - |
| East German | | 12¾ | | 14 | 5½ | - | 20.3 | 37.2 |
| Egypt Trust $ | | 692 | -2½ | 866¼ | 567¼ | 2.3 | - | - |
| [illegible] Latin American $ | § | 88¼ | -¼ | 128¼ | 46 | - | 108.3 | 18.4 |
| Warrants | | 41¾ | +½ | 76 | 16¼ | - | - | - |
| [illegible] Russian Frontiers $ | § | 229½ | -2½ | 1025 | 160 | - | 360.3 | 27.1 |
| Warrants | | 67½ | | 550 | 30 | - | - | - |
| Warrants II | | 42½ | | 500 | 15 | - | - | - |
| Five Arrows Chile | | 111¼ | +2¼ | 111¼ | 85¼ | - | 150.3 | 25.6 |
| Warrants | | 1 | | 4½ | 0½ | - | - | - |
| Uts Cv Uns Ln 2040 | | 121¼ | +2½ | 148½ | 83¼ | - | - | - |
| Jovell Asian Smlr | §v | 77 | +¼ | 98 | 31 | 0.9 | 97.3 | 20.9 |
| [illegible] Smlr Asian Cos | § | 25¼xd | | 36½ | 15¼ | 0.7 | 37.5 | 31.3 |
| Warrants | | 3¼ | | 7½ | 1½ | - | - | - |
| Indonesia Fund | | 131¼ | | 133 | [illegible] | - | - | - |
| Warrants | | 8 | | [illegible] | [illegible] | - | - | - |
| Israel Fund $ | | 61¼ | -¼ | 63¾ | 39¾ | - | 66.2 | 7.6 |
| Korea-Europe $ | § | 213¼ | -¼ | 222½ | 95½ | 0.6 | 256.2 | 16.8 |
| Korea Liberal $ | | 117½ | +¼ | 131 | [illegible] | - | 179.6 | 34.6 |
| Warrants | | 15½ | | 15¼ | [illegible] | - | - | - |
| Lazard Birla India | § | 38 | | 39¾ | [illegible] | - | 58.5 | 33.5 |
| Warrants | | 8 | | 9 | [illegible] | - | - | - |
| Schroder Korea Fd $ | § | 356¼ | -¼ | 375¼ | 141¼ | - | - | - |

Net asset values supplied by Lipper
as a guide only. See guide to London Share Service

## INVESTMENT COMPANIES

## LEISURE & HOTELS

## LIFE ASSURANCE

## MEDIA

## MEDIA - Continued

## OIL EXPLORATION & PRODUCTION

## OIL, INTEGRATED

## OTHER FINANCIAL

## PAPER, PACKAGING & PRINTING

## PHARMACEUTICALS

## PROPERTY

## PROPERTY - Continued



## PROPERTY - Continued

## RETAILERS, FOOD

## RETAILERS, GENERAL

## SUPPORT SERVICES

## SUPPORT SERVICES - Continued

## TELECOMMUNICATIONS

## TOBACCO

## TRANSPORT

## TRANSPORT - Continued

## WATER

## AMERICANS

## CANADIANS

## SOUTH AFRICANS

## TRADED INDEX SECURITIES

| | Notes | Price | + or - | 52 week high | low | Volume '000s | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|---|
| FTSE 100 TRAKRS | | [illegible] | | [illegible] | £47700 | - | - | - |

# AIM

## Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official list

## AIM - Continued

## GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent (except where payment is due after 6/4/99 when no tax credit will be applied) and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ɸ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ǁ Price at time of suspension
- . Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress.
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♣ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
f Dividend/yield adjusted for complex issue
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Dividend/yield excludes second payable after 6/4/99
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1998-99
G Assumed yield after pending scrip and/or rights issue
H Yield based on prospectus or other official estimates for 1999.
K Yield based on prospectus or other official estimates for 2000
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1999-2000.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
P Dividend/yield adjusted for consolidation or share split
R Forecast annualised yield, p/e based on prospectus or other official estimates.
¶ Pro forma figures.
? Dividend yield to date.

Abbreviations:
xd ex dividend
xc ex scrip issue
xr ex rights
xa ex all
xR ex capital distribution.

*This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion*

### ♣ FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

### FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 60p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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For Retail Price Index details call 0906 843 0005

### The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

# Heavyweight merger stories drive Footsie higher

**MARKET REPORT**

By Steve Thompson,
UK Stock Market Editor

The sudden burst of takeover and merger activity involving some of the London market's biggest and most heavily weighted stocks in the FTSE 100 injected some much-needed confidence to stock prices yesterday.

The FTSE 100 raced higher throughout the day, bolstered by confirmation that BP Amoco is involved in *detailed takeover talks with* Atlantic Richfield, the US oil group, plus news that Glaxo Wellcome, the drugs group, has been holding merger talks with *Bristol Myers* Squibb of the US, and numerous other rumoured deals.

Footsie eventually finished *113.7 higher at 6,252.9*, extending its gain over the past three sessions to 236.2 or 3.9 per cent. At its best of the day, not long before the *trading session* finished, the index hit 6,253.8.

The bullish feeling in the front-line stocks extended right across the rest of the market, with the FTSE 250 index pushing up 15.5 to 5,469.4 and the FTSE SmallCap nudging ahead by 0.2 to 2,394.5.

*Some market traders* suggested the latest mooted deals could propel the FTSE 100 beyond its previous record intra-day and closing highs within days. "We're looking at an extremely strong market in the short term and there are plenty of big market hitters expecting Footsie to move through 6,400 in the short term," said one marketmaker.

Another said that the market looked set fair and could well run to new highs, although he warned that events in the Balkans and possibly the US had the potential to upset the apple cart.

Market observers noted the ominous developments in the Balkans over the weekend and insisted that the outlook for that region looked bleaker than ever, with all the implications for increased confrontation between Nato and Russia and its allies.

In the background, there is also the regular meeting of the US Federal Reserve's open market committee, which sets US interest rates.

No change is expected in the market, but some observers are wary the Fed might well issue some form of warning about future moves in US rates.

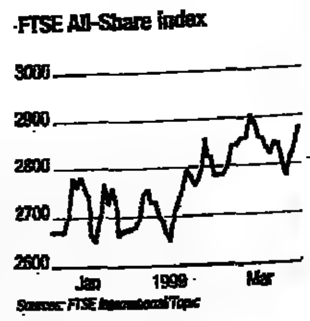
Helping London build on its strong start to the week was a sparkling performance by Wall Street, where the Dow Jones Industrial Average launched a fresh assault on the 10,000 level, posting a 160-point gain 90 minutes after London closed.

London's biggest stocks, in terms of market capitalisation, were behind the stunning upside move by the FTSE 100 index, with BT moving up more than 6 per cent, Lloyds TSB up almost 5 per cent, Vodafone up more than 4 per cent and Glaxo Wellcome up the same.

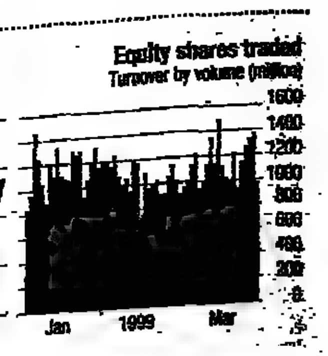
"Big is everything in this market; the institutions are back in the market and playing via the big stocks," said one salesman. He said the prospect of a big influx of personal equity plan cash was also behind the rise. "If you need to get big money in to the market you buy the leaders."

Turnover fell just short of the 1bn shares mark, eventually reaching 981.9m by the 6pm count, with non-Footsie stocks in the majority.

**FTSE All-Share index**



**Equity shares traded**
Turnover by volume (million)



Source: FTSE International/Topic

**Indices and ratios**

| | | | | | |
|---|---|---|---|---|---|
| FTSE 100 | 6252.9 | +113.7 | FT 30 | 3804.0 | +56.7 |
| FTSE 250 | 5469.4 | +15.5 | FTSE Non-Fins p/e | 25.14 | 24.70 |
| FTSE 350 | 2973.7 | +47.0 | FTSE 100 Fut Mar | 6318.0 | +136.5 |
| FTSE All-Share | 2878.34 | +43.30 | 10 yr Gilt yield | 4.7 | 4.69 |
| FTSE All-Share yield | 2.62 | 2.66 | Long gilt/equity yld ratio | 1.81 | 1.79 |

**Best performing sectors**

1 Telecommunications +3.9
2 Pharmaceuticals +3.7
3 Gas Distribution +3.6
4 Oil Integrated +3.6
5 Resources +3.2

**Worst performing sectors**

1 Tobacco -3.3
2 Alcoholic Beverages -1.4
3 Transport -1.1
4 Electronic & Elect Equip -1.0
5 Electricity -0.7

# Funds scramble for BP

**COMPANIES REPORT**

By Peter John, Martin Brice and Simon Bernholt

It looks like BP Amoco intends to squeeze fund managers until the pips squeak.

The prospect of a merger with Atlantic Richfield of the US raised the pressure on institutions that are still struggling to adjust weightings for the tie-up between BP and Amoco.

Dealers said soaking up another company in an all-paper deal could boost BP to more than 10 per cent of the Footsie. "It's becoming the monster in the machine. You just have to have it," a trader said.

The squeeze effect is likely *to be exaggerated by the cost* savings that would be generated by an Arco deal, particularly in Alaska.

However, the market was not prepared to bet the farm until it saw the fine print. From being up more than 50 in early dealing, the shares ended the day 40 better £10.77. Volume was chunky at 24m shares.

Steve Turner at HSBC Securities said: "The overlap and cost savings are significant, but we don't know the terms of the deal and how much of the synergies BP will have to give away to Arco shareholders."

The swirl of corporate activity pushed up Shell Transport 12½ to 423¼ on turnover of 34m even though the company is unlikely to make any deals until it has sorted out its cost-cutting programme.

Railtrack investors seemed to suffer another attack of the jitters amid *reports of a* tighter regulatory regime. The stock was once a market darling, but completely missed out on the FTSE 100 party as it lost 1.5 per cent or 21 to £14.55.

One seasoned trader expressed surprise that the shares should react so violently to regulatory fears *that have long been in the* price.

Two factors that would increase volatility in the shares are the company's Network Management Statement, unveiled last week, and the appointment of the new rail regulator, but these have been known about for some time.

It seems more likely that the shares suffered because investors have recently tended to shift away from classic defensive stocks such as Railtrack towards shares likely to benefit in the early part of any recovery cycle, such as British Airways and P & O.

Railtrack shares floated in 1996 at 380p, reaching a high of £17.68 in November as investors sought refuge from global market turmoil. However, as a growing belief that economies, including the UK, were likely to avoid the worst effects of a recession, have seen Railtrack shares trade sideways. Since October they have traded around £15.

*P & O*, which *last week* reached one of its highest-ever levels as it announced a shake-up in its corporate activities, lost some of its lustre and closed off 38 at 913½p. It had spent much of the past 10 years about 100p either side of 800p, but last week's news saw it surge through that trading range.

The 951½p *it* touched on Friday was its highest apart from the £10.02 briefly reached last July. The move towards conversion to a maritime leisure stock has produced some valuations of the company near £13.

Conspiracy theorists were out in force over Glaxo Wellcome yesterday after news that the pharmaceuticals group had been chatting to Bristol Myers Squibb.

The argument went along the lines that Glaxo had somehow encouraged the reports to ensure that SmithKline Beecham would be stung into action and Jan Leschly, its independent chief executive, would phone Glaxo begging to do a deal.

However, analysts who had been around the block more than once took a simpler line. "They are not that sophisticated and SmithKline knows there is an open door to Glaxo anyway," one said. "The only clear message is that Glaxo wants to do a deal. It needs to if it is going to maintain earnings growth."

Glaxo rose 83 to £19.79 and SmithKline 32½ to 855½p. Shortly after London closed, Bristol Myers was up $2 at $61.

News that ICI is about to get rid of a considerable amount of baggage shunted the stock to the top of the Footsie outperformer list.

However, the rise of 34 to 561p looked less exciting in the context of recent trading. The shares had fallen sharply after opening at 581p at the start of last week.

Analysts were generally pleased with the news that ICI was in talks with Huntsman Corp of the US and others regarding its disposal programme.

Martin Evans, the Sutherlands analysts who has been persistently bearish on the stock, showed signs of thawing yesterday. "The market will be at least relieved that they have made serious inroads into their [£4bn] debt mountain. Short-term it can only be helpful."

Safeway was the best performer amongst food retailers, rising 18¼ to 253½ on a volume of 18m after Credit Lyonnais Securities rated the stock a "buy" in its sector review.

Football Club Manchester United fell 4 to 217½p ahead of interims on Tuesday.

A downgrade of GUS by both Cazenove and Credit Suisse First Boston sent the shares down 25 to 690p.

Shares in information technology group Morse were down 5 at 245p ahead of the first day's trading on Tuesday. Blue Circle saw brisk trade of 4.2m following results at the bottom range of expectations, and the shares were off 4½ at 363½p. *We remain distinctly sceptical.*"

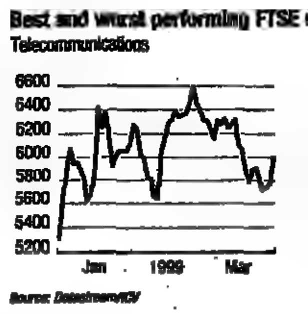
Frederick Cooper, the small engineer, was a penny firmer at 43½p as it announced its first interim dividend for two years. The stock is above its nadir of 23p touched last year but well below the £11.70 reached in 1995.

British Telecom recovered some of last week's losses by rising 88 to £10.14. Vodafone closed up 46 at £10.94.

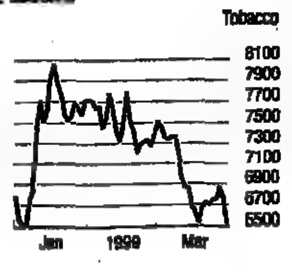
The long-mooted consolidation in the fragmented pub sector came one step closer yesterday as Enterprise Inns, down 7 to 373½p, made a hostile bid of 180p a share for Century Inns, up 26½ at 141½p.

**Best and worst performing FTSE sectors**

Telecommunications



Tobacco



Source: Datastream/ICV

**FTSE share classification**

■ New sector classifications for FTSE UK index companies come into effect on April 1. This Saturday's FT will include a comprehensive A-Z guide to the classification of companies in our London Share Service.

## FT 30 INDEX

| | Mar 29 | Mar 26 | Mar 25 | Mar 24 | Mar 23 | Yr ago | *High | *Low |
|---|---|---|---|---|---|---|---|---|
| FT 30 | 3804.0 | 3747.3 | 3731.2 | 3686.6 | 3703.3 | 3750.3 | 4004.9 | 2780.6 |
| Ord. div yield | 2.74 | 2.79 | 2.81 | 2.83 | 2.82 | 2.95 | 4.22 | 2.72 |
| P/E ratio net | 23.14 | 22.72 | 22.57 | 22.39 | 22.50 | 24.05 | 25.41 | 15.80 |
| P/E ratio nil | 23.06 | 22.66 | 22.51 | 22.33 | 22.44 | 23.84 | 25.19 | 15.71 |

FT 30 since compilation: high 4004.9 7/15/98; low 49.4 6/26/40. Base Date 1/7/35.

FT 30 hourly changes

| 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | High | Low |
|---|---|---|---|---|---|---|---|---|---|
| 3747.3 | 3782.9 | 3765.0 | 3765.8 | 3768.5 | 3773.4 | 3785.4 | 3796.8 | 3807.7 | 3747.3 |

 *For 1998/99.

## STOCK MARKET TRADING DATA

| | Mar 27 | Mar 26 | Mar 25 | Mar 24 | Mar 23 | Yr ago |
|---|---|---|---|---|---|---|
| SEAQ bargains | 89,317 | 83,951 | 84,572 | 87,393 | 90,832 | 78,977 |
| Equity turnover (£m)† | - | - | 4794.5 | 8230.1 | 3478.9 | 3340.8 |
| Equity bargains† | - | - | 70,806 | 118,963 | 68,123 | 68,749 |
| Shares traded (m)† | - | - | 1187.0 | 1909.3 | 917.1 | 847.0 |
| Total market bargains‡ | - | 84,141 | 85,301 | 158,624 | 79,055 | |
| Total turnover (£m)‡ | - | 5978.4 | 7385.2 | 11731.2 | 6474.4 | |
| Total shrs traded (m)‡ | 982.2* | 1393.2 | 1682.5 | 2529.0 | 1390.6 | |
| Tradepoint turnover (£m) | 16.3 | 25.3 | 40.4 | 43.8 | 35.9 | 24.7 |
| Tradepoint shrs traded(m) | 7.2 | 10.3 | 15.3 | 12.1 | 13.2 | 9.0 |

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ **London market data**

| Rises and falls* | | 52 Week highs and lows | | LIFFE Equity options | |
|---|---|---|---|---|---|
| Total Rises | 891 | Total Highs | 62 | Total contracts | 24,784 |
| Total Falls | 646 | Total Lows | 22 | Calls | 8,997 |
| Same | 1,323 | | | Puts | 15,787 |

Mar 29 *Data based on Equity shares listed on the London Share Service.

## FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 6190.0 | 6325.0 | +119.0 | 6325.0 | 6190.0 | 19338 | 184548 |
| Sep | - | 6348.0 | +119.0 | - | - | 0 | 3973 |
| Dec | - | 6400.0 | +119.0 | - | - | 0 | 200 |

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | - | 5470.0 | +15.0 | - | - | 0 | 7380 |

■ FTSE 100 INDEX OPTION (LIFFE) (*6253) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

## LONDON RECENT ISSUES: EQUITIES

[illegible]

## FTSE GOLD MINES INDEX

| | Mar 29 | % chg on day | Mar 26 | Year ago | Gross div yield % | Total return | 52 week High | Low |
|---|---|---|---|---|---|---|---|---|
| Gold Mines Index (28) | 978.04 | -0.15 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| ■ Regional Indices | | | | | | | | |
| Africa (9) | 954.53 | -3.18 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Australasia (9) | 1114.67 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Americas (10) | 813.52 | -2.46 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |



## FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ **Hourly movements**

| | Open | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.10 | High/day | Low/day |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FTSE 100 | 6157.8 | 6202.9 | 6177.6 | 6195.1 | 6198.4 | 6212.1 | 6222.3 | 6244.6 | 6253.8 | 6157.3 | [illegible] |
| FTSE 250 | 5453.3 | 5458.9 | 5453.5 | 5454.2 | 5460.8 | 5460.8 | 5462.2 | 5467.2 | 5470.8 | 5451.1 | [illegible] |
| FTSE 350 | 2934.1 | 2952.7 | 2949.2 | 2951.2 | 2958.5 | 2961.3 | 2970.3 | 2973.8 | 2974.1 | [illegible] | [illegible] |
| FTSE SmallCap | 2394.05 | 2395.24 | 2395.43 | 2394.85 | 2394.71 | 2394.72 | 2394.77 | 2394.10 | 2395.53 | 2393.95 | [illegible] |
| FTSE All-Share | 2841.87 | 2860.28 | 2849.25 | 2855.78 | 2857.88 | 2862.58 | 2868.93 | 2875.19 | 2878.45 | 2841.87 | [illegible] |

Further information is available on http://www.ftse.com.



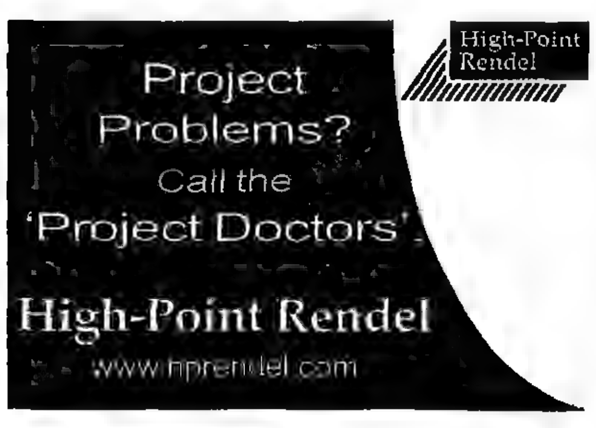
FTSE INTERNATIONAL

## TRADING VOLUME

■ Major Stocks yesterday

[illegible]





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Highs & Lows shown on a 52 week basis

# WORLD STOCK MARKETS

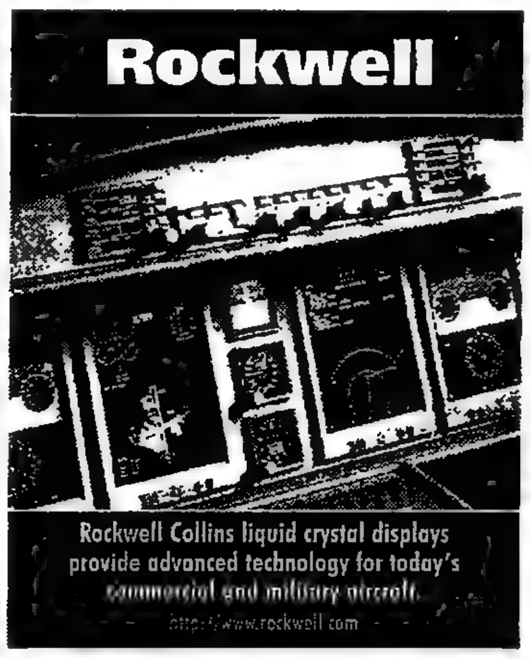
## EUROPE (EMU) Prices in €

## EUROPE (NON-EMU)

## PACIFIC

## AMERICAS

## AFRICA




## FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | FRIDAY MARCH 26 1999 US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | Euro Index | Local Currency Index | Local % chg on day | Gross Div. Yield | THURSDAY MARCH 25 1999 US Dollar Index | Pound Sterling Index | Yen Index | Euro Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (75) | 219.20 | 0.1 | 200.61 | 166.40 | 235.15 | 229.98 | 0.5 | 3.28 | 218.94 | 198.92 | 163.49 | 231.90 | 228.85 | 219.98 | 163.86 | 218.61 |
| Austria (21) | 179.21 | -0.3 | 164.02 | 136.04 | 189.64 | 189.84 | 1.0 | 1.98 | 179.70 | 163.35 | 134.18 | 187.95 | 187.95 | 253.73 | 165.27 | 217.36 |
| Belgium (22) | 359.34 | -1.4 | 328.86 | 272.77 | 333.02 | 333.02 | -0.1 | 2.03 | 364.26 | 330.94 | 272.08 | 333.31 | 333.31 | 446.95 | 305.26 | 311.74 |
| Brazil (29) | 131.17 | 1.2 | 120.05 | 99.57 | 140.71 | 425.75 | [illegible] | 5.71 | 129.62 | 117.77 | 96.79 | 137.29 | 430.87 | 269.34 | 89.32 | 263.08 |
| Canada (113) | 209.82 | 0.4 | 192.03 | 159.28 | 225.09 | 229.95 | 0.6 | 1.73 | 208.97 | 189.65 | 156.04 | 221.33 | 228.50 | 249.78 | 159.94 | 245.82 |
| Denmark (34) | 419.22 | -1.4 | 383.67 | 318.23 | 449.72 | 394.79 | -0.1 | 1.87 | 425.14 | 386.25 | 317.46 | 450.30 | 395.30 | 537.33 | 406.82 | 510.59 |
| Finland (29) | 651.81 | -0.3 | 596.53 | 494.79 | 757.69 | 757.69 | 1.0 | 1.55 | 653.70 | 593.90 | 488.12 | 750.26 | 750.26 | 661.25 | 338.40 | 371.86 |
| France (74) | 313.75 | -1.4 | 287.14 | 238.17 | 300.75 | 300.75 | -0.1 | 2.01 | 318.30 | 289.10 | 237.61 | 301.18 | 301.18 | 354.45 | 253.86 | 233.50 |
| Germany (55) | 243.58 | -3.0 | 222.93 | 184.90 | 230.74 | 230.74 | -1.7 | 1.72 | 251.05 | 228.09 | 187.46 | 234.80 | 234.80 | 325.61 | 238.38 | 288.60 |
| Greece (36) | 415.22 | 0.6 | 380.00 | 315.19 | 445.42 | 900.39 | 2.0 | 0.99 | 412.72 | 374.97 | 308.18 | 437.14 | 882.81 | 454.88 | 211.47 | – |
| Hong Kong, China (66) | 316.23 | -1.1 | 289.42 | 240.05 | 339.24 | 314.61 | -1.1 | 3.65 | 318.77 | 290.52 | 238.78 | 338.69 | 318.13 | 358.38 | 196.64 | 359.21 |
| Indonesia (24) | 44.82 | -1.9 | 41.02 | 34.02 | 48.08 | 244.71 | -1.5 | 1.10 | 45.71 | 41.53 | 34.13 | 48.41 | 248.50 | 64.52 | 18.04 | 58.94 |
| Ireland (14) | 528.70 | -2.3 | 483.87 | 401.34 | 546.58 | 546.58 | -1.0 | 1.88 | 541.02 | 491.53 | 403.98 | 552.23 | 552.23 | 605.85 | [illegible] | 521.36 |
| Italy (53) | 166.00 | -2.2 | 151.92 | 126.01 | [illegible] | 223.63 | -1.0 | [illegible] | 169.83 | 154.29 | 126.81 | 225.88 | 225.88 | 192.84 | 120.66 | 162.46 |
| Japan (445) | 110.34 | -0.8 | 100.98 | 83.76 | 118.37 | 83.76 | 0.9 | 0.89 | 111.21 | 101.04 | 83.04 | 117.79 | 83.04 | 113.43 | 76.83 | 101.76 |
| Mexico (29) | 1423.27 | -1.5 | 1302.67 | 1080.41 | 1526.82 | 14001.06 | -2.0 | 1.68 | 1444.30 | 1312.18 | 1078.48 | 1529.76 | 15235.40 | 1788.73 | 787.15 | 1852.25 |
| Netherlands (26) | 478.92 | -2.4 | 438.31 | 363.55 | 448.75 | 448.75 | -1.1 | 2.06 | 490.88 | 445.79 | 366.40 | 453.94 | 453.94 | 552.78 | 394.92 | 479.84 |
| New Zealand (18) | 62.75 | -0.1 | 57.43 | 47.64 | 87.32 | 62.26 | 0.3 | 3.85 | 62.83 | 57.08 | 46.91 | 86.54 | 62.05 | 77.16 | 45.88 | 77.16 |
| Norway (37) | 235.13 | -1.1 | 215.19 | 178.49 | 252.23 | 249.03 | -0.7 | 1.97 | 237.81 | 216.08 | 177.58 | 251.88 | 250.87 | 357.71 | 181.88 | 332.55 |
| Philippines (22) | 91.98 | 1.2 | 84.16 | 69.81 | 98.65 | 177.59 | 1.3 | 0.83 | 90.88 | 82.57 | 67.86 | 96.26 | 175.38 | 106.03 | 42.48 | 104.55 |
| Portugal (18) | 226.44 | -1.1 | 207.24 | 171.89 | 289.48 | 289.48 | 0.2 | 1.10 | 229.01 | 208.08 | 171.01 | 289.05 | 289.05 | 298.39 | 194.13 | – |
| Singapore (40) | 213.36 | 0.0 | 195.26 | 161.98 | [illegible] | 170.41 | 0.4 | 1.55 | 213.32 | [illegible] | 159.29 | 225.94 | 169.77 | 243.84 | 102.45 | 240.04 |
| South Africa (34) | 205.67 | -1.2 | 188.23 | 156.12 | 220.63 | 280.62 | -0.6 | 3.43 | 208.22 | 189.17 | 155.48 | 220.54 | 282.45 | 346.20 | 151.55 | 298.89 |
| Spain (30) | 360.98 | -3.3 | 330.37 | 274.02 | 423.89 | 423.89 | -2.1 | 1.65 | 373.44 | 339.28 | 278.85 | 432.97 | 432.97 | 435.10 | 290.81 | 378.05 |
| Sweden (43) | 512.21 | 0.3 | 468.77 | 388.82 | 549.47 | 631.84 | 1.0 | 1.96 | 510.75 | 464.03 | 381.39 | 540.97 | 625.41 | 628.19 | 379.18 | 565.43 |
| Switzerland (30) | 380.08 | -2.1 | 347.84 | 288.52 | 407.73 | 349.87 | -0.9 | 1.21 | 388.06 | 352.56 | 289.77 | 411.02 | 353.15 | 441.65 | 307.73 | 395.30 |
| Thailand (26) | 25.23 | 1.1 | 23.09 | 19.15 | 27.06 | 36.80 | 1.3 | 2.25 | 24.94 | 22.66 | 18.63 | 26.42 | 36.43 | 31.96 | 8.15 | 31.07 |
| United Kingdom (202) | 388.41 | 0.1 | 355.47 | 294.84 | 416.68 | [illegible] | 0.8 | 2.68 | 388.10 | 352.60 | 289.80 | 411.00 | 352.60 | 401.84 | 307.96 | 389.88 |
| USA (608) | 528.86 | -0.6 | 484.01 | 401.46 | 567.33 | 528.86 | -0.6 | 1.28 | 531.93 | 483.27 | 397.20 | 560.40 | 531.93 | 542.89 | 390.12 | 449.87 |
| Americas (779) | 469.85 | -0.5 | 430.01 | 356.67 | 504.03 | 398.75 | -0.6 | 1.30 | 472.41 | 429.19 | 352.76 | 500.36 | 408.94 | 481.42 | 347.59 | 406.00 |
| Europe (724) | 345.66 | -1.3 | 316.35 | 262.38 | 370.81 | 332.91 | -0.2 | 2.06 | 350.09 | 318.07 | 261.42 | 370.81 | 333.65 | 386.24 | 282.63 | 347.42 |
| Eurobloc (342) | 97.14 | -2.2 | 88.90 | 73.74 | 99.59 | 99.59 | -0.9 | 1.82 | 89.30 | 90.22 | 74.15 | 100.52 | 100.52 | 113.92 | 81.53 | – |
| Nordic (143) | 497.64 | -0.2 | 455.44 | 377.79 | 533.85 | 529.66 | 0.8 | 1.83 | 488.72 | 453.10 | 372.49 | 528.22 | 525.73 | 555.97 | 360.04 | 488.17 |
| Pacific Basin (716) | 117.75 | -0.7 | 107.76 | 89.38 | 126.31 | 92.00 | 0.7 | 1.35 | 118.58 | 107.73 | 88.55 | 125.89 | 91.39 | 120.45 | 82.88 | 113.23 |
| Euro-Pacific (1440) | 212.22 | -1.1 | 194.23 | 161.10 | 227.66 | 182.44 | 0.0 | 1.84 | 214.56 | 194.94 | 160.22 | 227.26 | 182.34 | 221.79 | 166.00 | 210.87 |
| North America (721) | 507.24 | -0.5 | 464.22 | 385.04 | 544.14 | 508.22 | -0.5 | 1.27 | 510.01 | 463.38 | 380.83 | 540.18 | 510.98 | 519.90 | 374.92 | 436.75 |
| Europe Ex. UK (522) | 313.91 | -2.0 | 287.29 | 238.29 | 336.75 | 312.11 | -0.8 | 1.73 | 320.22 | 280.93 | 238.11 | 330.17 | 314.52 | 366.32 | 260.93 | 315.93 |
| Europe Ex. Eurobloc (382) | 97.17 | -0.3 | 88.93 | 73.76 | 104.24 | 99.67 | 0.5 | 2.39 | 97.51 | 88.50 | 72.81 | 103.28 | 99.18 | 103.93 | 77.40 | – |
| Europe Ex. UK Ex. Eurobloc (180) | 93.36 | -1.3 | 85.44 | 70.87 | 100.15 | 95.43 | -0.2 | 1.44 | 94.58 | 85.93 | 70.62 | 100.17 | 95.66 | 109.21 | 75.16 | – |
| Pacific Ex. Japan (271) | 192.15 | -0.4 | 175.86 | 145.86 | 208.13 | 196.47 | -0.2 | 3.25 | 182.90 | 175.26 | 144.04 | 204.81 | 196.80 | 215.19 | 128.26 | 215.19 |
| World Ex. Eurobloc (1911) | 109.34 | -0.5 | 100.07 | 83.00 | 117.30 | 108.93 | -0.2 | 1.49 | 109.93 | 99.88 | 82.89 | 116.44 | 108.12 | 111.15 | 83.09 | – |
| World Ex. US (1645) | 212.15 | -1.0 | 194.16 | 161.05 | 227.59 | 187.78 | 0.0 | 1.87 | 214.94 | 184.73 | 160.05 | 227.02 | 187.88 | 221.91 | 165.95 | 214.82 |
| World Ex. UK (2051) | 307.08 | -0.9 | 281.03 | 233.10 | 329.41 | 279.46 | -0.4 | 1.41 | 309.80 | 281.46 | 281.33 | 328.13 | 280.82 | 314.12 | 236.11 | 287.08 |
| World Ex. Japan (1808) | 415.78 | -0.8 | 380.52 | 315.62 | 446.03 | 412.67 | -0.4 | 1.62 | 419.06 | 380.72 | 312.92 | 443.85 | 414.44 | 427.99 | 320.58 | 384.28 |
| The World Index (2253) | 314.10 | -0.8 | 287.46 | 238.43 | 336.95 | 286.50 | -0.3 | 1.54 | 316.57 | 287.61 | 238.39 | 335.30 | 287.32 | 320.63 | 242.35 | 298.27 |



## Emerging markets: IFC investable indices

Dollar terms

| Mar 26 Market | | Day's chg % | % Chg since 31/12/98 |
|---|---|---|---|
| **Latin America** | | | |
| Argentina | 787.35 | -1.0 | -1.3 |
| Brazil | 273.74 | +1.0 | -0.5 |
| Chile | 513.03 | | +13.7 |
| Colombia | 380.89 | +0.1 | -13.3 |
| Mexico | 581.68 | -1.2 | +22.9 |
| Peru | 140.44 | -0.1 | +4.5 |
| Venezuela | 333.81 | +0.4 | [illegible] |
| **East Asia** | | | |
| China | 24.40 | -1.2 | [illegible] |
| India | 75.89 | -2.3 | +17.9 |
| Indonesia | 22.11 | -1.4 | -8.7 |
| Korea | 58.24 | -0.0 | [illegible] |
| Malaysia | 76.02 | | -14.1 |
| Pakistan | 106.25 | +1.3 | +12.4 |
| Philippines | 126.20 | +0.9 | [illegible] |
| Sri Lanka | 64.29 | -0.2 | -21.8 |
| Taiwan, China | 128.71 | +1.4 | +11.1 |
| Thailand | 62.51 | [illegible] | -1.0 |
| **Europe** | | | |
| Czech Rep | [illegible] | -1.7 | -18.9 |
| Greece | 744.86 | +0.8 | +30.2 |
| Hungary | 233.12 | -2.7 | -16.9 |
| Poland | 508.88 | +1.4 | [illegible] |
| Portugal | 258.29 | -1.1 | -11.6 |
| Russia | 39.16 | -2.3 | +67.1 |
| Slovakia | 33.47 | +0.7 | [illegible] |
| Turkey | 220.26 | +1.5 | +58.5 |
| **Mideast/Africa** | | | |
| Egypt | [illegible] | | [illegible] |
| Israel | 118.95 | [illegible] | +18.4 |
| Jordan | 235.19 | | +8.8 |
| Morocco | 158.55 | -1.0 | [illegible] |
| S Africa | 143.66 | -1.8 | +14.7 |
| Zimbabwe | 128.40 | -1.3 | +20.0 |
| **Regions** | | | |
| Composite | 209.83 | -0.3 | +0.1 |
| Latin America | 454.17 | -0.3 | +8.2 |
| Asia | 113.37 | +0.1 | [illegible] |
| EMEA | 128.42 | -0.8 | +12.4 |
| Europe | 167.48 | +0.1 | +11.8 |
| Easte Europe | 59.52 | -1.4 | [illegible] |
| ME & Africa | 80.62 | -1.4 | +13.1 |
| [illegible] | 203.83 | -0.3 | +7.6 |
| [illegible] | 110.10 | +0.1 | +1.9 |

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; [illegible] (16) July 2 1993.
Latest indices were unavailable for this edition.

FTSE

# NEW YORK STOCK EXCHANGE PRICES

*3:15 pm March 29*

- A -

| 1998/99 High | Low | Stock | Div | Yld. % | P/E | Vol 100s | High | Low | Close Quote | Chge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 32 | 14¾ | AAR | 0.34 | 1.9 | 13 | 1255 | 18⅛ | 17 | 18 | +1 |
| 56 | 29¼ | AMP | 1.08 | 1.9 | | 25792 | 56 | 55 | 55 | +½ |
| 89⅞ | 45 | AMR | | | 7 | 7078 | 57¼ | 56 | 56 | |
| [illegible] | | | | | | | | | | |

- B -

| 1998/99 High | Low | Stock | Div | Yld. % | P/E | Vol 100s | High | Low | Close Quote | Chge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | | | | |
| 43¼ | 29⅛ | BostSci | | | | 9353 | 39 | 37 | 39 | +1 |
| 60½ | 31¼ | Bowater x | 0.80 | 2.0 | | 3093 | 41 | 40 | 40 | |
| 101 | 73 | BP Amoco x | 2.40 | 2.3 | 29 | 27601 | 105 | 103½ | 104 | |
| 23½ | 9 | BrazilFd x | 0.78 | 6.4 | | 721 | 12¼ | 12 | 12 | |
| 28 | 21½ | BREProp | 1.58 | 6.9 | 16 | 614 | 22 | 22¼ | 22 | |
| 34⅛ | 2⅞ | BreedT | 0.28 | 8.0 | | 682 | 3 | 3 | 3½ | |
| 58⅛ | 33 | BrigSt x | 1.16 | 2.3 | 13 | 602 | 51¼ | 50 | 50 | |
| 30⅝ | 15 | Brinker | | | 22 | 2165 | 26 | 26 | 26 | |
| 80 | 44¼ | BrMySq | 0.86 | 1.4 | 39 | 30394 | 62½ | 60 | 62½ | +3 |
| 114½ | 52 | Br Air x | 2.90 | 4.1 | 8 | 287 | 71 | 69 | 69 | |
| 18 | 4 | BP Prudhoe | | | 3 | 601 | 7½ | 6 | 7½ | |
| 28 | 14 | BSteel | 1.73 | 8.5 | 10 | 471 | 20½ | 20 | 20 | |
| 181 | 79 | BT | 3.44 | 2.1 | 71 | 147 | 163¼ | 162 | 163 | |
| 20 | 12 | BrwnGp x | 0.40 | 3.0 | 9 | 350 | 13 | 13 | 13 | |
| 18 | 4 | BrwnSh | | | | 425 | 5 | 4 | 5 | |
| 71 | 49 | BrnFrmA x | 1.18 | 2.2 | 18 | 44 | 53 | 52 | 53¼ | |
| 77¼ | 51 | BrnFrmB x | 1.18 | 2.1 | 20 | 483 | 58 | 56 | 57½ | |
| 39 | 28 | BrFerr x | 0.76 | 1.9 | 19 | 4129 | 39 | 38 | 39 | |
| 8 | 8 | BRT | | | 5 | 22 | 7 | 7 | 7 | |
| 35 | 12 | Brnswk | 0.50 | 2.8 | 10 | 987 | 19 | 19 | 19 | |
| 30 | 10 | Brush Well x | 0.48 | 3.2 | | 109 | 15 | 14 | 14 | |
| 31 | 25 | Buckeye Pr | 2.10 | 7.6 | 14 | 54 | 27¼ | 27¼ | 27 | |
| 25 | 11 | BuckeyeTch | | | 9 | 140 | 13 | 12 | 13 | |
| 20 | 6 | BrnADR | | | | 351 | 13 | 13¼ | 13 | -½ |

- C -

[illegible]

- D -

| 1998/99 High | Low | Stock | Div | Yld. % | P/E | Vol 100s | High | Low | Close Quote | Chge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | | | | |
| 71 | 53 | DukeEn | 2.20 | 3.9 | 16 | 5222 | 57 | 56 | 56 | |
| 25 | 18 | DukeRlty | 1.36 | 6.4 | 18 | 1835 | 21 | 21 | 21 | |
| 38 | 21 | D&B Cp | 0.74 | 2.0 | 25 | 3574 | 36 | 35 | 36 | |
| 84 | 50 | DuPont | 1.40 | 2.4 | 39 | 14856 | 57 | 56 | 57¼ | +1 |
| 39 | 34 | Duql. 4.1 x | 2.05 | 5.5 | | 3 | 37½ | 37¼ | 37¼ | |
| 35½ | 30 | Duqsne4.00 x | 2.00 | 5.9 | | 20 | 34 | 34 | 34 | |
| 27¼ | 9½ | DVI | | | 12 | 63 | 15 | 15 | 15 | |

- E -

| 1998/99 High | Low | Stock | Div | Yld. % | P/E | Vol 100s | High | Low | Close Quote | Chge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 3 | 1 | ECC Intl | | | | 61 | 2 | 2 | 2 | |
| 33 | 18 | EG&G | 0.56 | 2.1 | 11 | 805 | 26 | 25 | 26 | |
| 37¼ | 20 | Eastgrns | 0.16 | 0.7 | 21 | 2275 | 24 | 23½ | 23 | |
| 31 | 23 | East Utils | 1.66 | 5.9 | 16 | 81 | 28 | 28 | 28¼ | |
| 45 | 37 | E Enterpr x | 1.68 | 4.5 | 16 | 749 | 38 | 37 | 37 | |
| 72 | 40 | EastCh x | 1.76 | 3.9 | 14 | 2478 | 45 | 45 | 45¼ | |
| 88 | 57 | EKodak x | 1.76 | 2.7 | 15 | 9802 | 67¼ | 65 | 65 | |
| 68 | 57½ | Eaton | 1.76 | 2.5 | 14 | 3328 | 71 | 68 | 71¼ | |
| 41¼ | 20 | Ecolab x | 0.42 | 1.1 | 32 | 2197 | 38 | 36 | 37 | |
| 31 | 24 | Edcastr | 1.08 | 4.8 | 12 | 11032 | 24 | 23 | 23 | |
| 48 | 22 | EdwaAG x | 0.60 | 1.8 | 19 | 1893 | 33 | 32 | 32 | |
| 8 | 2 | Ekco Group | | | | 39 | 3 | 3 | 3 | |
| 67¼ | 40¼ | Elan ADR | | | | 9088 | 69 | 65 | 69¼ | +2 |
| 38¼ | 19 | Elcor Corp | 0.28 | 0.8 | 20 | 159 | 35 | 34 | 34 | |

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

| 1998/99 High | Low | Stock | Div | Yld. % | P/E | Vol 100s | High | Low | Close Quote | Chge Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 63 | 33 | Xerox x | 0.80 | 1.5 | 21 | 22420 | 54 | 52 | 53 | + |
| 63 | 50 | XI Cap | 1.76 | 2.9 | 9 | 2309 | 61 | 59 | 60 | + |
| 60 | 37½ | Xtra Corp | | | 10 | 199 | 39 | 38¼ | 39 | +1 |
| 31 | 22 | Yankee Egy x | 1.38 | 5.0 | 20 | 982 | 25 | 22 | 23 | + |
| 92 | 27½ | York Int x | 0.60 | 1.7 | 18 | 806 | 35 | 34 | 35 | + |
| 24 | 6 | Zapata | | | 3 | 304 | 8 | 8 | 8 | + |
| 50 | 37 | Zeneca | 0.80 | 1.7 | 36 | 12985 | 46 | 45 | 46 | + |
| 30½ | 20 | Zenith Nat | 1.00 | 4.1 | 19 | 42 | 24 | 24¼ | 24 | |
| 6 | 5 | Zenix Inc x | 0.67 | 11.3 | | 85 | 5 | 5 | 5 | |
| 14 | 8 | ZweigFd | 1.28 | 11.4 | | 412 | 10 | 10½ | 10 | + |
| 9 | 8 | Zweig Tot | 0.94 | 10.1 | | 416 | 8 | 8¼ | 8 | + |

*Price data supplied by Financial Times Information.*

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. # Dealings suspended.

# GLOBAL EQUITY MARKETS

## US INDICES

| Dow Jones | Mar 26 | Mar 25 | Mar 24 | 1998/99 High | 1998/99 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 9822.24 | 9836.39 | 9666.84 | 9997.62 (18/3/99) | 7539.07 (31/8/98) | 9997.62 (18/3/99) | 41.22 (8/7/32) |
| Home Bonds | 104.86 | 104.74 | 104.15 | 107.17 (9/12/98) | 104.06 (26/3/99) | 107.17 (9/12/98) | 54.99 (1/10/81) |
| Transport | 3260.11 | 3289.70 | 3206.65 | 3686.02 (16/4/98) | 2345.00 (8/10/98) | 3686.02 (16/4/98) | 13.23 (8/7/32) |
| Utilities | 299.77 | 304.39 | 305.05 | 320.51 (8/10/98) | 262.66 (9/1/98) | 320.51 (8/10/98) | 16.53 (8/7/32) |

DJ Ind. Day's high 9923.53 (9976.59) Low 9700.69 (9656.28) (Theoretical)
Day's high 9853.32 (9841.84) Low 9747.31 (9604.90) (Actual)

| Standard and Poors | | | | | | | |
|---|---|---|---|---|---|---|---|
| Composite‡ | 1282.80 | 1289.99 | 1268.59 | 1316.55 (18/3/99) | 927.69 (9/1/98) | 1316.55 (18/3/99) | 4.40 (1/6/32) |
| Industrials♥ | 1541.99 | 1550.31 | 1524.23 | 1578.98 (18/3/99) | 1077.40 (9/1/98) | 1578.98 (18/3/99) | 3.52 (30/6/32) |
| Financial♥ | 139.59 | 140.17 | 137.50 | 147.60 (14/7/98) | 95.80 (8/10/98) | 147.60 (14/7/98) | 7.13 (4/9/74) |
| **Others** | | | | | | | |
| NYSE Comp. | 602.35 | 604.86 | 596.59 | 617.61 (18/3/99) | 477.20 (8/10/98) | 617.61 (18/3/99) | 4.64 (25/4/42) |
| Amex Comp | 718.74 | 712.40 | 703.60 | 753.47 (22/4/98) | 563.75 (8/10/98) | 753.82 (22/4/98) | 524.20 (19/7/96) |
| NASDAQ Cmp | 2419.17 | 2434.80 | 2365.26 | 2510.09 (1/2/99) | 1419.12 (8/10/98) | 2510.09 (1/2/99) | 54.87 (31/10/72) |
| Russell 2000 | 393.92 | 392.99 | 394.40 | 491.41 (21/4/98) | 310.28 (8/10/98) | 491.41 (21/4/98) | 123.36 (7/12/90) |

### ■ RATIOS

| | Mar 26 | Mar 19 | Mar 12 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 1.61 | 1.60 | 1.60 | 1.90 |
| | Mar 24 | Mar 17 | Mar 10 | Year ago |
| S & P Ind. Div. yield | 1.13 | 1.11 | 1.12 | 1.32 |
| S & P Ind. P/E ratio | 39.72 | 40.63 | 40.71 | 30.37 |

## US DATA

■ MARKET ACTIVITY

■ NYSE TRADING ACTIVITY

■ ACTIVE STOCKS

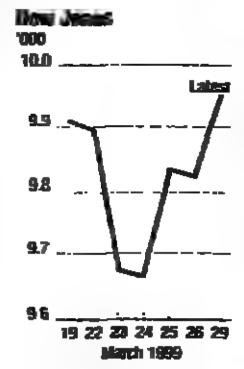
■ BIGGEST MOVERS

■ NASDAQ TRADING ACTIVITY

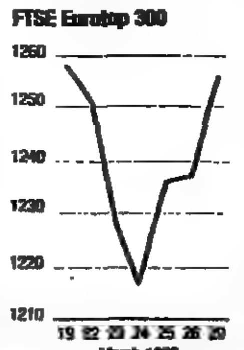
■ ACTIVE STOCKS

■ BIGGEST MOVERS

Dow Jones



FTSE Eurotop 300



March 1999

## JAPAN

■ TOKYO TRADING ACTIVITY

■ ACTIVE STOCKS

■ BIGGEST MOVERS

## GERMANY

■ FRANKFURT TRADING ACTIVITY

■ ACTIVE STOCKS

■ BIGGEST MOVERS

## FRANCE

■ PARIS TRADING ACTIVITY

■ ACTIVE STOCKS

■ BIGGEST MOVERS

## UK

■ LONDON TRADING ACTIVITY

■ ACTIVE STOCKS

■ BIGGEST MOVERS

## INDEX FUTURES

| ■ S&P 500 | Open | Latest | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 1294.00 | 1301.00 | +4.00 | 1303.30 | 1292.80 | 73,037 | 362,430 |
| Sep | 1301.00 | 1309.50 | - | - | - | 111 | 4,612 |
| ■ Nikkei 225 | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
| Jun | 16100.0 | 16010.0 | +30.0 | 16200.0 | 15990.0 | 17,620 | 202,451 |
| Sep | 16000.0 | 16100.0 | - | 16100.0 | 16000.0 | 53 | 3,865 |

Open interest figures for previous day

| ■ CAC-40 | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 4128.0 | 4157.0 | +49.0 | 4169.0 | 4088.0 | 196,585 | 104,155 |
| Apr | 4128.0 | 4160.0 | +49.0 | 4170.0 | 4089.0 | 132,641 | 54,863 |
| ■ DAX | | | | | | | |
| Jun | 4891.0 | 4838.0 | -58.0 | 4998.5 | 4747.0 | 57,584 | 274,490 |
| Sep | 4911.0 | 4864.0 | -106.5 | 4911.0 | 4804.0 | 12 | 972 |

| ■ OMX | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Mar | 732.75 | 732.75 | +5.25 | 734.25 | 730.50 | 7,440 | 21,695 |
| Apr | 728.00 | 726.50 | +2.50 | 733.00 | 720.50 | 17,518 | 102,572 |
| ■ EUREX | | | | | | | |
| Jun | 7030.0 | 6937.0 | -71.0 | 7044.0 | 6883.0 | 24,470 | 100,973 |
| Sep | 7009.0 | 6955.0 | -58.0 | 7020.0 | 6933.0 | 284 | 3,740 |

## WORLD MARKETS AT A GLANCE

| Country | Index | Mar 29 | Mar 26 | Mar 25 | 1998/99 High | 1998/99 Low | Yield | P/E |
|---|---|---|---|---|---|---|---|---|
| Argentina | General | 17228.43 | 17019.79 | 17190.83 | 23485.98 25/3/98 | 12303.10 10/9/98 | 3.97 | 13.5 |
| Australia | All Ordinaries | 2974.0 | 2996.6 | 2985.9 | 2986.80 26/3/99 | 2458.20 1/9/98 | 2.97 | 23.4 |
| India | BSE Sens. | | 3597.58 | | | | | |
| | S & P CNX 500 | | 732.71 | 748.27 | | | | |
| Portugal | BVL 30 | 4614.89 | 4636.72 | 4615.23 | | | 2.2 | 23.4 |
| | PSI 20 | 10852.86 | 10712.64 | 10855.34 | 14093.00 22/4/98 | 8114.51 2/10/98 | | |
| Austria | ATX Index | 1181.30 | 1177.58 | 1165.90 | | | | |

[illegible]

# THE NASDAQ-AMEX MARKET GROUP

3:15 pm March 29

[illegible]

## AMEX

3 pm March 29

[illegible]

## EASDAQ

[illegible]

# STOCK MARKETS

## Mergers inject new life back into bourses

**WORLD OVERVIEW**

A revival of global merger activity meant equity markets were able to shake off some of last week's lethargy, *writes Philip Coggan.*

Weekend news of the deal between Nissan and Renault, the planned takeover of Atlantic Richfield by BP Amoco and the revelation of failed talks between Glaxo Wellcome and Bristol Myers Squibb kept the speculative pot bubbling.

Takeovers help equity markets in a number of ways – by injecting cash back into the market, by offering the prospect of improved earnings through cost-cutting and by making investors reluctant to be underweight the market.

*Investors seemed as if they* were looking for a reason to buy the market last week and takeovers provided the spur. Wall Street was strong from the start of trading, with the Dow Jones Industrial Average making a run *at 10,000 just before lunch*time in New York.

There were further signs that the conflict in Kosovo was having an adverse effect on the euro, but very little evidence of a similar effect on the equities markets. Indeed, the weakness of the single currency gave a lift to European bourses by improving export prospects.

The Frankfurt and Zurich markets both gained more than 1 per cent and Paris notched up a 0.9 per cent gain.

Some of the recent volatility in markets has been due to signs of improving economic growth. While higher growth should boost corporate earnings, the prospect has pushed up bond yields, stretching valuations.

Joe Rooney, global strategist at Lehman Brothers, said: "The downward trend to earnings revisions, which reached its nadir last November in the aftermath of the Russian debacle, looks *to have been decisively bro*ken with as strong a rebound as has occurred this decade.

"A market backdrop composed of a brightening outlook for earnings has typically been a favourable one for cyclical stocks," added Mr Rooney. "The case for cyclical exposure is as its *strongest in continental Europe.*"

On the subject of bonds, Gerald Holtham, global strategist at Norwich Union, said the group had taken a tactical underweight position in US Treasuries.

"*If the oil price stays* where it is, US inflation could be 2½ per cent in a couple of months and 2¾ per cent by the end of the year," he said. "That could drive bond yields up to 6 per cent."

*Mr Holtham* believes such a bond market movement could cause a 10-15 per cent correction on Wall Street.

**MARKET FOCUS**

## Dax can look to bright side

If the adage is right and the best time to buy is when the *market is down*, then investors should be flocking to Germany.

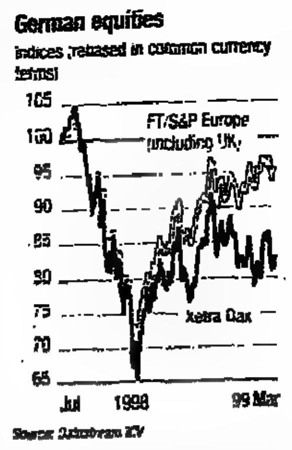
After a brief rally in early January, the German stock market has trailed international exchanges. Even the resignation of Oskar Lafon*taine as finance* minister on March 11, interpreted by business as the best news of the year, *has failed to propel* the benchmark Xetra Dax index back to 5,000, where it closed last year.

Analysts say the Dax is likely to remain under pressure during April and May, when the first-quarter results of many companies are expected to reflect the impact of the economic and financial crises in Japan, south-east Asia, Russia and parts of Latin America.

"A further downside factor is the risk of a correction on the US market. If a substantial interest rate hike there is followed by a downward valuation adjustment," says Wolfgang Sawazki of Westdeutsche Landesbank. "So there is much to indicate that the current phase of uncertainty will continue in the next few weeks."

However, the outlook is not uniformly bleak. The euro's weakness should have a positive effect on the performance of German exporters in the second half. Although many investors were disappointed by the relatively large wage settlements won last month by IG Metall and other German trade unions, the euro's *8 per cent fall against the* dollar since January will partly offset higher unit *wage costs.*

Company earnings forecasts for 2000 are likely to be more promising than those for this year. And the prospect of share buy-backs, recently permitted by law for the first time in Germany, should increase the appetite of investors for German stocks.




*Mr Lafontaine's departure* seems certain to lift business confidence as Chancellor *Gerhard Schröder's centre*-left government adopts policies friendly to the private sector.

"There is still hope of a fundamental change in economic policy, and that is perfectly justified because Schröder has to do everything he can to meet his election promises of a significant reduction in unemployment," says Gerhard Grebe of the investment bank Julius Bär.

True, the government has gone ahead with the tax changes that provoked such hostility from insurance and energy companies, which complained before Mr Lafontaine's resignation that they would have to pay billions of D-Marks more in taxes.

But the world's largest reinsurer, Munich Re, acknowledged last week, the eventual tax bill is unlikely to be as big as first feared. *There is also some hope of* corporate tax reform in 2000.

The German stock market *has priced in most of the bad* news, but has yet to price in all the good news. "The market is technically oversold, and international investors are underweight in German stocks. This alone offers potential for a technical recovery," said Mr Sawazki.

**Tony Barber**

## Energy sector switched on by oil talks

**AMERICAS**

News of a series of mergers in the pipeline gave Wall Street an early boost, lifting the Dow Jones Industrial Average close to 10,000 at midsession, *writes John Labate in New York.*

The energy sector stole the limelight on reports that BP Amoco was in talks to acquire Atlantic Richfield. Also helping sentiment was an early rise in oil prices.

Arco gained $6¾ or more than 10 per cent to $72, while Texaco was up 6.3 per cent or $3½ at $59¾. Among Dow shares, *Chevron was one of the strongest performers, up* 1⅞ at $89⅛.

*Other oil-related shares* were also in demand. Oil equipment and service company *Baker Hughes rose $1* at $24⅞ after Morgan Stanley raised its rating on the stock to "strong buy".

Nearly all Dow shares were higher, sending the blue-chip index 154.01 higher, a gain of 1.6 per cent, to 9,978.25. The broader Standard & Poor's 500 index was up 22.96 or 1.8 per cent at 1,305.78.

Shares of Kingworld Productions were $1⅞ higher at $31⅞ on a report the company was in takeover talks with broadcaster CBS. CBS was up $⅞ to $40⅞.

Leading pharmaceutical shares were higher on speculation that Glaxo Wellcome of the UK was in talks with other key producers. Bristol Myers Squibb was $2⅛ higher at $61⅞. Warner-Lambert gained $2⅞ at $70¾.

As stocks climbed, US Treasuries sold off, with sentiment dampened on new corporate debt issues and as oil prices rose in early trading. The 30-year Treasury bond lost ⅞ at 94⅞, sending the yield higher at 5.639 per cent.

High-tech shares were strongly bid, sending the Nasdaq composite index 49.88 higher to 2,469.05. Sun Microsystems climbed $6 or more than 5 per cent to $122½ in the anticipation surrounding its alliance with America Online.

Online bookseller Amazon.com was up $10⅞ to $149⅞ *after the company* said it would launch an online auction site. eBay shares were down $5¾ to $149⅞ on the announcement.

**TORONTO** continued to push higher in early trading, adding to the gains built up in the final three days of last week as Wall Street made a rampaging start to the session.

Financials stayed in favour, notably the leading banks where Royal Bank of Canada gained 45 cents at C$69.40 and Toronto-Dominion put on C$1.45 at C$67.20. Canadian Imperial improved 40 cents at C$39.

Both golds and telecoms were mixed. Barrick added 10 cents at C$26.45, but rival mining blue chip Placer Dome lost 15 cents at C$16.95.

In telecoms, BCE lost 70 cents at C$69.70 while Northern Telecom rose C$1.70 to C$95.75.

At the noon calculation, the 300 composite index was up 30.80 at 6,666.0.

## Frankfurt loses its caution

**EUROPE**

Shares in **FRANKFURT** rallied, with the Xetra Dax rising 67.62 or 1.4 per cent to 4,867.21, seemingly pushing to one side the caution that sent the market down 6.1 per cent last week.

Leading utility Viag led the performance charts on the weekend news of management changes at Alusuisse Lonza. These were widely interpreted as putting Viag's planned takeover of Algroup back firmly on track and in the process lifted the utility's shares €31 or 6 per cent to €511.

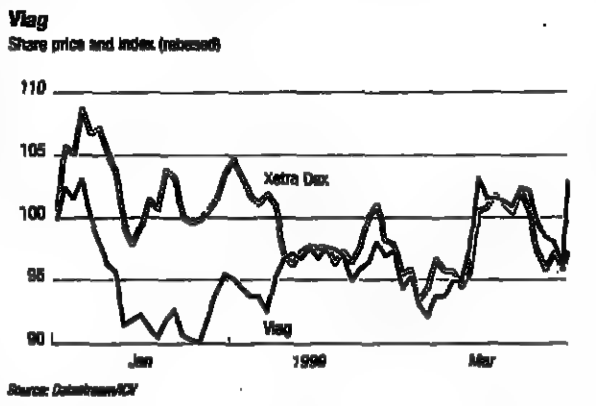
Elsewhere in the sector Veba rose €1.05 to €49.95 but RWE was a dull market, closing all square at €42 after a downgrade from *"market performer" to "market underperformer"* at J.P. Morgan.

*Insurance stocks*, notably weak on Friday, rallied after Munich Re attempted to *clear some of the fog away* from the vexed question of heavier taxes. It said new tax rules would be less onerous than anticipated, and the shares jumped €3 to €184. Allianz gained €4.60 at €285.50.

In advance of this week's run of news events, motors were buoyant. Daimler-Chrysler added 98 cents at €80.98 ahead of what is widely seen as an upbeat annual conference tomorrow. BMW, which holds its annual news conference today, improved €23.50 to €651.50, while Volkswagen hardened 13 cents to €60.13.

**PARIS** moved higher, with the CAC-40 adding 37.94 at 4,153.65.

*Renault improved as* investors warmed to the latest assessment from the *management of the motor* giant of the tie-up with Nissan of Japan. The shares, up 7 per cent at one stage, came off their session highs to close €1 better at €35.




Rising oil prices and the merger between BP Amoco and Atlantic Richfield buoyed French oil stocks. Elf jumped €6 to €131 and Total €1.40 to €114.0.

**The FTSE Eurotop 300 index fell 19.11 or 1.54 per cent to 1,256.77. See Euro Prices page.**

Defence-related stocks stayed firm. Thomson CSF led the way, rising €1.50, or 5.4 per cent to €29.50 after announcing a deal worth £23m with the British Ministry of Defence to supply communication systems for military aircraft.

Hoteller Accor was top performer, rising €14.10 or 6.4 per cent to €234.80 ahead of its full-year results due out today. Analysts at Lehman Brothers considered the stock sharply undervalued in the face of an industry upturn.

France Telecom, however, performed poorly, falling €1.25 to €71.75 after Goldman Sachs cut its price target to €82 from €86.50 in response to the company's 1998 results.

**AMSTERDAM** added 9.0 at 534.56 on the AEX index, although most of the day's action was on second-line stocks following the news that jobs agency Content was in takeover talks.

Content surged €11.20 or 51.4 per cent to €33 on news *of a possible bid from Creyf of Belgium.* The announcement sparked talk of an immediate counterbid from a Dutch employment agency, with most commentators pinpointing Vedior as a possible additional suitor.

Among other Dutch job agencies, Unique rose €2 to €26.30 and Brunel €1.50 to €18.90. Randstad improved 40 cents to €43.15 but Vedior came off 45 cents at €20.55.

Among blue chips, Royal Dutch continued to warm to the improved oil price background, adding a further €1.66 at €50. Philips gained €1.96 to €74.35 while in *financials* ABN Amro added 40 cents at €19.20.

Media groups were active. *VNU rose €1.25 to €34.75 and* Elsevier gained 65 cents or 5.3 per cent to €13.25.

***ZURICH*** responded to the early gains on Wall Street plus a strong dollar with a steady improvement. *At the* close the SMI index was 78.1 higher at 7,086.3.

Financials had an active session with CS Group rising SFr8.50 to SFr276.50 and UBS adding SFr4.50 at SFr463. Alusuisse Lonza was also a firm feature with investors pushing takeover hopes back to the top of the agenda. Algroup gained SFr36 at SFr1,660.

Before today's news conference, Roche rose SFr245 to SFr17,945, while rival drugs leader Novartis improved SFr25 to SFr2,385. Ciba, boosted by positive broker comment, rose SFr4 to SFr113.75.

Nordic markets caught the eye on a day when trading volumes were mostly on the low side.

**HELSINKI** pushed up to within a whisker of a record high with market heavyweight Nokia continuing to gain from the strong performance of tech stocks on Wall Street.

Nokia rose €1.50 to €140, a fresh peak for the year. At the close, the Hex index was up 1.1 per cent at 8,466.01 – just 2 points short of a record.

**COPENHAGEN** ended lower with a bad day for Tele Danmark and the bank*ing sector sending the KFX* index down 2.42 at 195.85.

Brokers said trading volumes were slim. *In the circumstances a dramatic surge* for shipping group J Lauritzan dominated trading. Boosted by disposal news, the shares jumped DKr74 or 16.6 per cent to DKr524.

**Written and edited by Jeffrey Brown, Florian Gimbel, Paul Gregan and Claire Barron**

## Telmex upgrade fuels Mexico City advance

**MEXICO CITY** rallied strongly, boosted by the bounce for US equities and a broker upgrade for Telmex, the market heavyweight.

Brokers said volumes were thin with many traders making an early start to book-squaring ahead of the Easter long weekend. Morning trading volumes extended to less than 20m shares.

It took only limited buying to push the market higher.

Telmex was an obvious feature following an upgrade from "no action" to "buy" at Paribas. Telmex added 75 centavos, but by mid-morning the gains had been pared to 50 centavos at 30.75 pesos.

At midsession, the benchmark IPC index had improved 54.14 at 4,790.72.

**SAO PAULO** made a steady start, retracing part of Friday's modest losses in early trading. At midsession, the Bovespa index was up 28 at 10,888.

## Gold rally rescues Jo'burg

**SOUTH AFRICA**

Shares in Johannesburg ended above the day's lows, thanks partly to a late rally among the industrial sectors and golds.

At the close of trading the all share index was off 21.6 at 6,439.0 after touching a low for the session of 6,410.7. Activity levels were modest with many traders running down their books ahead of the Easter break.

Industrials ended 4.3 better at 7,539.0 while golds improved 7.3 at 2,840.6.

## Tokyo splutters to end of year

**ASIA PACIFIC**

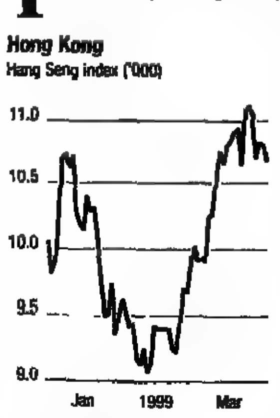
Investors in **TOKYO** wound down their activities ahead of tomorrow's fiscal year-end and the benchmark index closed little changed. The Nikkei 225 Average ended 8.15 lower at 16,008.84, after trading between 16,185.8 and 16,002.28 during the day.

Other indices also moved narrowly, with the weighted Nikkei 300 index losing 0.15 per cent or 0.39 to 254.68, while the *broader Topix* index of first-sector stocks improved 0.07 per cent or *0.89 to 1,266.67.* Volume was low at 379m shares, with 657 rising and 525 falling.

The securities sector fell 3.5 per cent – the worst performer of the day – after the three biggest brokers warned on Friday that they would be posting heavy group net losses for the 1998 fiscal year

Nomura Securities lost 4.2 per cent or Y55 to Y1,270. Daiwa Securities fell 1.9 per cent or Y12 to Y635 and Nikko Securities was down 1.9 per cent or Y11 to Y574.

Sumitomo Metal Industries was the heaviest traded stock of the day and climbed 5.5 per cent or Y8 to Y153. Its shares were bought after it announced on Friday that it would jointly develop and produce silicon wafers for semiconductor devices with Mitsubishi Materials.




A similar announcement from Softbank last week that it would join Microsoft and Yahoo Japan to sell cars over the internet also gave momentum to its shares. Softbank closed up 5.3 per cent or Y640 to Y12,800.

*In Osaka, the OSE index* was up, gaining 79.79 points to 17,017.52.

**HONG KONG** moved lower in thin volumes, hit by unfavourable corporate news plus negative pressure from the derivatives markets ahead of today's futures expiry.

By the close of a session in which turnover had trailed back to HK$3.7bn from HK$4.5bn on Friday, the Hang Seng index was off 114.84 or 1.1 per cent at 10,688.47 after touching a low of 10,628.06.

Brokers said futures trading had weighed heavily on sentiment, with the March futures contract that expires today sliding 115 points. The total number of declining *shares in the cash market* outpaced risers 350 to 116. The mood was also hindered by results from New World Development, which fell short of expectations.

*New World fell 30* cents or 1.9 per cent to HK$15.50 and the rest of the property sector moved lower in sympathy. Sun Hung Kai lost HK$1.50 at HK$54 and Cheung Kong HK$1 at HK$56.

**SYDNEY** ended lower in spite of gains by selected energy stocks. The All Ordi*naries index, which hit a* record high on Friday, closed off 22.6 at 2,974 in modest profit-taking. Volumes were dull.

BHP unwound some of the strong gains built up ahead of Friday's better-than-expected results, shedding 55 cents or 3.9 per cent at A$13.70. Strong international oil prices sent Woodside Petroleum and Santo up 8.9 cents and 7 cents respectively to A$9.63 and A$4.90.

**TAIPEI** succumbed to profit-taking, with the *recently buoyant electronic* sector leading the way down. The weighted index closed 131.57 or 1.87 per cent lower at 6,901.68, after surging briefly above the 7,000 level.

Modest volume and declining April index futures suggested increasing investor caution. The closely *watched electronics sector*, which has fuelled the market's rally this month, was *hardest hit by faltering con*fidence.

Fears of declining chip prices weighed on the semiconductor makers, with United Microelectronics falling T$2.50 to T$58. Macronix shed T$1.30 to finish at T$30.60 after reporting larger-than-expected 1998 losses.

**SEOUL** was depressed by profit-taking and arbitrage selling ahead of tomorrow's fiscal year-end. The compos*ite index closed 8.72 or 1.43* per cent lower at 601.07, with decliners outnumbering gainers 596 to 217.

Banking stocks bore the brunt of the selling with Hanvit Bank shedding Won1,050, or 8.7 per cent, to Won11,050. Kookmin Bank fell Won650 to Won11,850, while Hana Bank lost Won550 at Won13,000.

Net sales by foreign investors put a further damper on *sentiment. But analysts* expected the market to rebound after the start of the new fiscal year.

# Rising above its troubled neighbours

## Singapore is weathering the Asian financial crisis relatively well, but is having to respond to a threat to its competitiveness, reports **Sheila McNulty**

Asean leaders united at the close of a summit in Hanoi last December. Now, Singapore finds maintaining relations with some of its regional neighbours a delicate affair AP

As the regional financial crisis intensified this past year, Singapore's better-managed economy became an affront to its jealous neighbours. Indonesia sought to put the city-state in its place by dismissing it as a dot on the map of south-east Asia. Hong Kong attempted to undermine Singapore's achievements by tagging it a controlled society. And Malaysia seized control over airspace it had shared with Singapore for decades in just one of many attempts to lash out at its closest rival.

The ever so gentle diplomacy that has for years characterised foreign relations in the region has been swept away by the tide of discontent that flowed in with the crisis. Singapore has found maintaining relations a delicate affair, one it has managed largely by rising above the provocation – defending itself but going no further.

It has taken comfort in its long-standing policy to maintain strong political and defence links with powerful allies further afield. And Goh Chok Tong, the prime minister, has spent much time on the road this past year, personally attending to those relationships.

Back home, the government has sent out a strong message to its neighbours by committing the largest allocation of its budget, as in previous years, to defence, at 25 per cent of total spending. It recently agreed to buy eight, US-made Apache attack helicopters and shipped eight jet aircraft to France for one of its many training missions abroad.

The government has been just as aggressive in attempts to attract foreign investors, which analysts note serve the same purpose as its defence links of giving outsiders a stake in what happens to the city-state. Singapore already is a global manufacturing and business centre for more than 5,000 international companies. It is the biggest hard disk drive manufacturer in the world and the world's third largest oil refining centre. Caltex recently relocated its global headquarters to the city-state.

Singapore has been able to continue spending time and money courting foreign investors throughout the crisis as its economy is not in the dire shape of those around it. Although growth slowed sharply from 8 per cent in 1997 to 1.5 per cent in 1998, Singapore nevertheless managed to maintain growth while its neighbours suffered severe contractions. The Trade Development Board will be organising 100 trade missions and international fairs this year to keep the momentum going.

Singapore's biggest problem has been to maintain its competitiveness after currencies in surrounding countries depreciated far further, pushing down relative costs considerably. But, with labour accounting for 50 per cent of business costs, the government addressed that with a 15 per cent cut in overall wages, which the public accepted without a whimper.

Not that anyone would have expected otherwise. "It's not a society which challenges," a diplomat notes. It has been taught not to by years of regimented learning in schools; a barrage of fines for violating regulations on everything from the sale of chewing gum to failing to flush public toilets; propaganda on sign boards and subway cards urging everything from childbirth to courteousness; and restrictions on rights such as free speech.

"The younger generation knows something is amiss. I think a lot of them really want to know more," says Chee Soon Juan, secretary-general of the opposition Singapore Democratic Party. "They've been in a strait-jacket all these years."

It will be difficult to break out of it without the consent of the People's Action Party (PAP), which has ruled since Singapore obtained autonomy from the UK in 1959. Mr Chee tried, nevertheless, in recent months by speaking in public without the required police permit to challenge what he says is a regulation violating his constitutional right to free speech. He was arrested and fined – and as a result he is now barred from running for office for five years.

But diplomats say the authorities have shown a touch more tolerance by engaging in debate on the issue in the government-influenced press. Many Singaporeans believe the issue is important but do not support attempts to challenge the government when it is working hard to steer the city-state safely through the regional financial crisis.

Support for the PAP has grown in the past year, a tribute to the level-headedness it has displayed, compared with the interventionism of Hong Kong, the antagonistic approach taken by Malaysia, and the power vacuum in Indonesia. The government has refused to bail out favoured companies or give the public undue help, instead forcing everyone to do their part to pull through.

Lay-offs reached an all-time high of 28,300. And even Singapore's biggest and best have taken hits. The Development Bank of Singapore, Singapore's most prestigious bank and the biggest in south-east Asia, suffered a 49 per cent drop in group net profit to S$222.8m for the year ended December 31. Keppel Corp, the government-linked conglomerate, suffered a net loss of S$144.6m for the year ended December 31, swinging from net profit of S$171.1m in the previous year. It announced plans to cut its 9,000-strong workforce by 10 per cent and sell, merge or shut about 50 of its 600 companies in hopes of returning to profit in 1999.

Yet, the government has continued to liberalise, in spite of the additional pressure that puts on companies, as it works feverishly to stake its claim to being the second biggest financial centre in Asia, after Japan, while its neighbours are seized in crisis.

It is also forcing the retraining of workers and a change in curriculum so Singaporeans will be able to cope with efforts to transform the city-state into a knowledge-based economy. And it is putting the finishing touches to efforts to transform Singapore into an electronic economy as Malaysia only dreams of becoming a high-tech hub.

"Relative to the economies in the region, we have this window to prepare to leap-frog into the future," Mr Goh says. "The other countries are seized with the immediate problems." All of which explains the animosity of its neighbours.

"Singapore is an odd-ball in every sense of the word," says Zulkifli B. Baharudin, vice president of the Roundtable group formed to give those outside politics a forum through which to express their views. "We share very little similarities with our neighbours. Even when the crisis comes, everyone is in crisis except Singapore. They all say Singapore should help and Singapore says it is so vulnerable so it must save its money."

Singapore did, however, help Thailand, but Malaysia did not want any strings attached to its assistance and Indonesia balked at the safeguards attached to the city-state's pledge. Jakarta, in particular, seemed to feel Singapore should be more free with its assistance. "Singapore will help Indonesia within the limits of our ability ... After all, we are only 3m people. Just a little red dot on the map," Mr Goh said. He was clearly retaliating for Indonesian President B. J. Habibie's snub that Singapore was a mere "dot" on the map of south-east Asia.

Amid these strained relations, Singapore has the unenviable task of keeping the region united this year as chairman of the standing committee of its diplomatic club, Asean, or the Association of South East Asian Nations.

It will not be easy. The crisis has pushed forward a new generation of leaders in the region, some of whom do not even pretend to adhere to the old doctrine of non-interference in members' affairs that maintained a sense of decorum in the region for so long. The forum is needed to give the countries a reason to engage one another, despite their differences, and work for the greater good of the region. Given the resentment expressed toward Singapore since the crisis began, it knows only too well the importance of its task.

Goh Chok Tong, prime minister of Singapore, has been successfully guiding the country through the regional financial crisis amid a sea of regional instability. In this interview he explains to Sheila McNulty his views on where the city-state is headed and why he believes its course has antagonised some of his neighbours

# 'It may take us three years, but we will recover'

**Q: How has the crisis placed Singapore relative to the rest of the region?**

A: "In a relative sense, we have emerged stronger than before. In the absolute sense, of course, our Singapore dollar has been affected, the economy has suffered a recession. But, relative to the economies in the region, we have this window to prepare to leapfrog into the future. That's true. So it depends on how we use the advantage. We are now investing heavily in workers' retraining, in education; in short, in upgrading our national capabilities as well. The other countries are seized with the immediate problems. They've got to put their economic structures right, those that have been damaged by the crisis, whereas we don't have to, so we can concentrate on improving our capabilities, both national as well as individual for the process after the crisis is over."

**Q: How do Singapore's efforts to be more competitive place you with respect to Hong Kong?**

A: "We were able to bring costs down through tax reduction, adjustment of costs by the market – in property prices, rentals – and, very importantly, wage cost reduction. We are now, I think, more competitive than Hong Kong because Hong Kong has a fixed exchange rate. They are stuck with that, and their interest costs are very high as compared to ours. As of now, we are more competitive than Hong Kong. But we don't just look at the immediate future. It's the longer-term future that we're concerned about. That means after the crisis is over, when there's recovery, where does Singapore stand? That's what is important. I have got to emphasise over here that our eyes are not cast on Hong Kong, it's the world market. Hong Kong is just another competitor, but we are not seized with Hong Kong's competitiveness."

**Q: How has the perception that you have taken the lead over Hong Kong affected your relations?**

A: "The economic crisis has made them rather sensitive, you know. It's their own internal problems. But some segments of Hong Kong society became rather sensitive, so sometimes they misread what we say, what we do. And there was a sense of Singapore trying to do Hong Kong in, which, of course, is all nonsense. That has been put right. Mr C. H. Tung [Hong Kong's chief executive] understood that from me, personally. He has also met senior minister, Lee Kuan Yew, and he has understood. He [Mr Lee] said that there is no desire on the part of Singapore to do Hong Kong in. In fact, we view Hong Kong as a very important partner in this region. We need two hubs for the region. Not just one. Two power stations are always better than one for the region, and we can do business by selling electricity to one another."

**Q: What impact has the change in government in Indonesia had on your relations with the country?**

A: "A new balance has to be found between both countries, between the new leadership in Indonesia and the current leadership in Singapore. There have been high expectations by the Indonesians of assistance from Singapore to Indonesia. I think their expectations were a little unrealistic. We are, after all, a small country with limited resources. So we can only help as a catalyst to bring in more investments into Indonesia, not as a country granting abundant financial assistance to Indonesia. That's not possible. So expectations of Indonesia did not quite meet the reality of the situation. So that has created, I think, some problems between the two countries. But after the election, whoever is in charge of Indonesia, Singapore will have to deal with him. And then we hope to find a new balance."

**Q: The crisis has also brought with it calls for freer speech at home. Will you respond to them?**

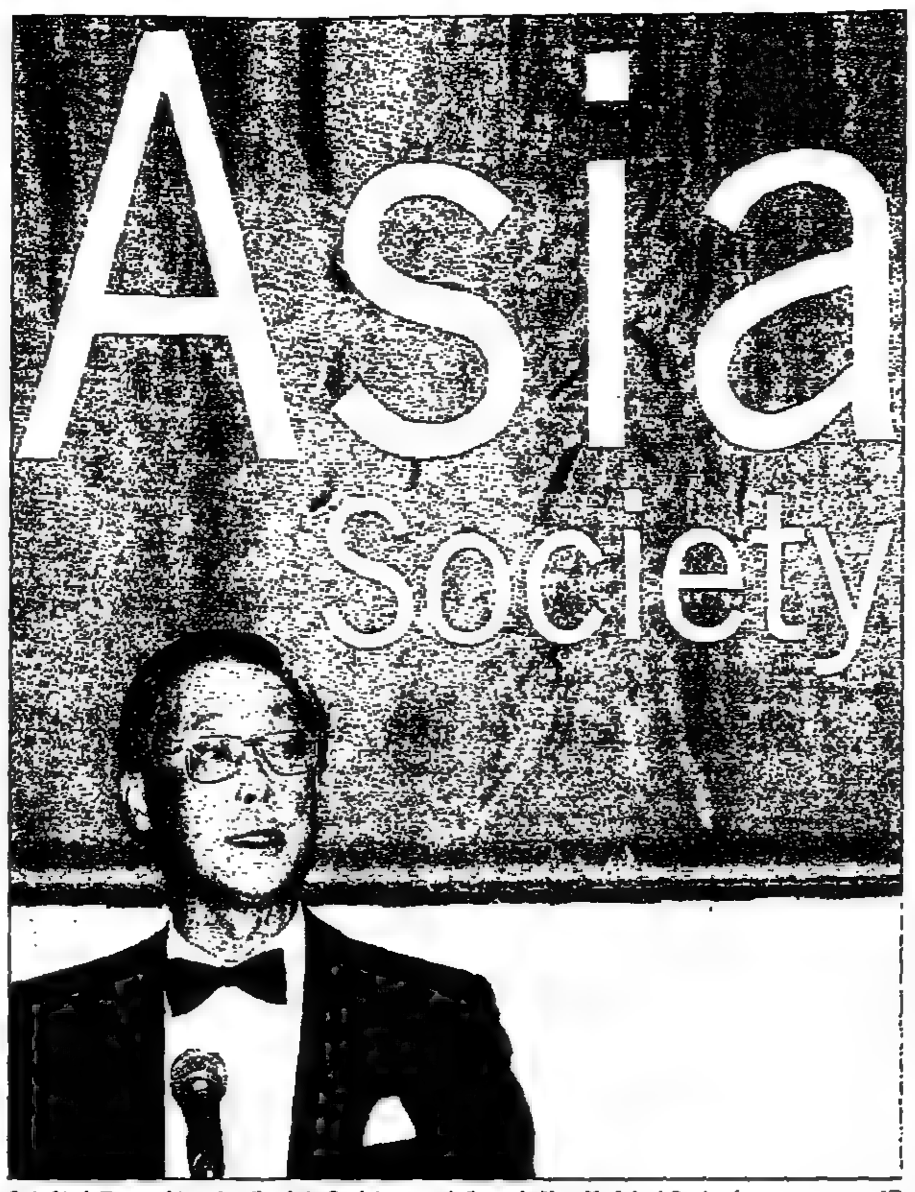
A: "Well, it's a very small call by Dr Chee (Soon Juan) and a few people. Basically, there is freedom of speech in Singapore within the laws, within responsible limits. Dr Chee is free to say what he wants to say. But, of course, one cannot break the law in order to have free speech. You see, the laws are there. As for the (Hyde Park-like) speakers' corner, yes, senior minister has mentioned that. I, myself, take a different view. I think, let it evolve. I don't think I would concede a speakers' corner so quickly. Now, where do you put a speakers' corner? And it's surely at the wrong time, I think, if you were to concede now. But we will let the society evolve. Giving them more space to speak is not a problem. But it must be done in the context of law and order. And do not forget that this is a multiracial society where religion can still become quite sensitive. So I will not move too quickly. Somebody can just go to the speakers' corner and talk about religion and incite feelings against some other religions in the name of freedom of speech. By the time we nab him and charge him in court, it may be too late.

**Q: Throughout the crisis Singapore has focused on its long-term objectives, such as taking a lead in the IT area. Why is this so important to Singapore?**

A: "We see this as the future growth area. Electronic commerce, ability to write software, programs, linking up with other e-commerce centres in the world – it is going to be a growth area. Just look at the IT stocks, internet stocks, the value which they have created for those with the websites and the ideas. We, therefore, want to move into this growth area. Second, it's also a means for us to improve our productivity. We have a fairly big economy relative to our neighbours on a per capita basis. Our gross domestic product is about the same as Malaysia's, although Malaysia has about five or six times our population. So, how do you run such an economy? You have got to be more efficient. So IT enables us to increase the productivity for banking, for business, for your office work and so on. So you need to move into IT. It is the way to the future. But we are going in before others move in to this area. We've got a start. But this is a race. We want to widen the distance between ourselves and others. And, again, the competition is not with our neighbours here. It's the other countries elsewhere – Australia, New Zealand, Britain, countries which are computer-literate – which are far advanced in IT.

**Q: You have been travelling regularly outside the region in recent months. What is the message that you have been carrying to other nations?**

A: "My message to them is, don't write off Asia, don't write off Asean. Asia, Asean are passing through difficult moments. These are temporary. It may take us two years. It may take us three years, but we will recover. And don't write us off. The time to make friends, to establish contact, is now. To encourage private investments, investors to maintain contacts with Asia, that's my other message to the leaders elsewhere. Singapore has got the luxury of time. I can travel quite freely. But the other countries, which are in some difficulty, their leaders can't travel so freely. So I have got to do some work for Asean."




Goh Chok Tong addressing the Asia Society annual dinner in New York last September AP

**Singapore sectoral economic growth**

*Percentage change over same period of previous year*

| | 1997 | | 1998 | | | | |
|---|---|---|---|---|---|---|---|
| | 4th quarter | Annual | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter | Annual |
| Total | 7.6 | 8.0 | 6.2 | 1.6 | -0.6 | -0.8 | 1.5 |
| Manufacturing | 8.7 | 4.6 | 6.6 | -0.4 | -4.2 | -2.7 | -0.5 |
| Construction | 16.8 | 16.0 | 15.5 | 7.9 | -0.2 | -3.3 | 3.9 |
| Commerce | 2.8 | 6.7 | 0.8 | -4.5 | -5.8 | -8.3 | -4.0 |
| Transport & Communications | 8.3 | 9.3 | 6.6 | 6.3 | 4.1 | 4.7 | 5.5 |
| Finance & Business Services | 9.0 | 11.3 | 6.6 | 2.2 | 1.5 | 2.1 | 3.1 |
| *Percentage change over previous period (annualised)* | | | | | | | |
| Total | 2.8 | 8.0 | -1.4 | -3.2 | -8.4 | 2.1 | 1.5 |
| Manufacturing | -0.6 | 4.5 | -5.8 | -8.8 | -3.3 | 5.0 | -0.5 |
| Construction | 7.8 | 16.0 | 1.4 | -2.9 | -6.5 | -12.5 | 3.9 |
| Commerce | -2.6 | 6.7 | -9.0 | -7.2 | -4.7 | -4.6 | -4.0 |
| Transport & Communications | 6.7 | 9.2 | 6.2 | 8.8 | -1.0 | 8.4 | 5.5 |
| Finance & Business Services | 4.3 | 11.3 | 0.3 | -3.0 | 7.0 | 6.1 | 3.1 |

Source: Singapore Department of Statistics

**THE ECONOMY** by Sheila McNulty

# In good shape, but alert to competitiveness worries

Surrounded by hard-hit economies, Singapore sees the need to become a knowledge-based economy to secure its future

One by one the crisis-hit economies of south-east Asia sank into recession this past year, and Singapore was unable to avoid the same fate. But its downturn, while representing a sharp deceleration from 8 per cent growth recorded in 1997, was far less severe.

At the end of last year Singapore reported 1.5 per cent growth for 1998. The city-state had gone into the crisis in far better shape than those around it. Its better-managed companies have a reputation for being cash rich instead of heavy borrowers. Its banks had not extended loans beyond their means. And its government had, through the boom years, kept its head out of the very clouds that Malaysia was in such a hurry to ascend to in erecting the tallest buildings in the world. So when the crisis provoked panic all around, Singapore watched calmly as Malaysia retreated from the international financial community behind capital controls, Hong Kong turned to interventionism and Indonesia simply lost control.

"We have the luxury not to be preoccupied with fire-fighting," says Lee Hsien Loong, deputy prime minister. "We must continue to look ahead and take measures now which will show results in five or 10 years."

The government announced a S\$2bn (\$1.16bn) package of cost-cuts and spending measures in June, followed by a S\$10.5bn cost cutting package in November, which included a 15 per cent reduction in overall wages. After years of budget surpluses, high savings and a stable currency, it could afford to go into what is expected to be a rare deficit this year, of S\$5.1bn.

The cost-cutting was to make Singapore more competitive amid a region of depreciating currencies and collapsing prices. And the spending on infrastructure supported the city-state's long-term needs. "We cannot do Keynesian pump-priming, boosting aggregate demand by paying unemployed people to dig holes in the ground and fill them up again," Mr Lee says. "Our economy is too open. Fifty-four cents of every dollar spent in Singapore leaks abroad through imports, so the multiplier effect of government spending is small."

There was an occasional private grumble about why the government was not doing more as lay-offs reached an all-time high of 28,300, while overall trade shrank by 7.5 per cent, visitor arrivals declined by 13 per cent, activities in the Asian dollar market contracted by 10 per cent, and private consumption spending declined 0.1 per cent.

But even when the government announced the 15 per cent cut in overall wages, nobody took to the streets in protest. The authorities had spent months spreading the message that if everyone worked together fewer jobs would be lost. Even the unions backed the plan.

"We have been able to get wage cuts effected without any turmoil, not because our unions have been cowed into submission but because our unions are strong enough to carry the ground in this painful exercise," says Lim Boon Heng, secretary-general of the National Trades Union Congress and minister without portfolio. "We participated in the decision-making on how much to cut in wage costs. We asked for justification. When we were satisfied that the case was proven, we set out to explain to unionists."

It is clear that Singapore is remarkably adept at managing its own domestic economy. But, because of its small size and lack of natural resources, so much of its growth is dependent on outside forces, beyond its control. Singapore's manufacturing and services sectors require demand far in excess of that generated by its 3m people to power the economy.

The government made clear its reliance on the outside world when it said the sharp downturn was mainly due to three factors: deepening recessions in most of Asia resulted in a drop in external demand; the decline in exports was exacerbated by the erosion of its cost competitiveness given the greater depreciation in regional currencies; and global over-capacity in electronics had hit manufacturing. How Singapore does this year will, once again, depend on the economies of the region and beyond. "All they can do is wait for the international economy to pick up speed so they can ride on this," says Kostas Panagiotou, senior economist at Kim Eng Securities.

The government is forecasting minus one to plus one per cent growth this year. The predictions of private-sector economists range from minus three to plus three. But what concerns them is not so much the next few years but how Singapore will fare beyond that, five to 10 years from now.

Singapore is feverishly working toward becoming a hub for electronics, petroleum and petrochemicals, engineering, life sciences, education and medicine. It also wants to be a regional financial centre and base for logistics, communications, and multinational headquarters.

Economists worry that these ambitions are, once again, dependent on outsiders to work. But the government is confidently forging ahead. And it is investing heavily in retraining workers to help the city-state progress to a knowledge-based economy. Economists caution that it is difficult to upgrade skills, particularly of older or uneducated workers, and that it will take time. The authorities are not deterred. "We are always worried about reaching our goals," says Liew Heng San, managing director of the Economic Development Board. "It keeps us on our toes."

**POLITICS** by Sheila McNulty

# Appetite for reform dulled by economic security

While Singaporeans may seek stability in the face of the region's present financial crisis, there are signs of a government willingness to accommodate change

Last year, Gandhi Ambalam, vice-chairman of the Singapore Democratic Party (SDP), failed to show up for a discreet meeting planned in the thick of a bustling Raffles Hotel bar. This year, the opposition politician boldly threw open the doors of his office.

In a country as guarded as Singapore, these are the subtle signs one must take note of to detect the ever-so-slight changes in the political landscape. For many Singaporeans are fearful of being seen criticising the administration.

The US report on Singapore Human Rights Practices for 1998 notes: "The government's authoritarian style has fostered an atmosphere inimical to fully free speech and the press." But the People's Action Party (PAP), which has ruled since the city-state obtained autonomy from the UK in 1959, has no reason to grant concessions now. For while there were a few hushed complaints last year about the government's failure to do as much as surrounding countries to alleviate pressures brought on by the regional financial crisis, none is heard these days.

Singaporeans now realise their economy was never in as bad a state as neighbouring ones. As the months passed, they watched Indonesia descend into total chaos and Malaysia alienate itself from the international financial community by imposing capital controls. By year's end, Singaporeans could not help but be grateful that the PAP, with 81 of 83 elected parliamentary seats, was steering them steadily and securely through the crisis.

"We are doing well, so of course the prestige of the government must go up," Goh Chok Tong, the prime minister, says confidently.

Diplomats and political analysts agree that it has. But they also note that this has historical foundation: people seek stability in times of distress and change in times of affluence. So it is when the crisis has passed, they say, that the authorities might, once again, come under criticism. And if they are serious about wanting to steer their people in a new direction, by promoting creativity and risk-taking, after years of teaching them to stay within acceptable boundaries and follow orders, they will have to loosen their hold.

"This kind of atmosphere cannot operate without a freer flow of information, and it is going to give rise to calls for change," one diplomat says. A few have already been sounded. Chee Soon Juan, secretary-general of the SDP, took the lead several months ago, marching into the financial district twice to speak to the hundreds milling around without first obtaining the required police permit. He insisted the need for a permit violates his constitutional right to free speech. And he was arrested.

However, observers detected more tolerance. Mr Chee was charged with speaking in public without a permit instead of something more serious, such as inciting the public. But that did not mean the authorities were easy on him. He was fined S\$1,400, and sentenced to seven days in jail if he did not pay, for the first offence and fined S\$2,500, and sentenced to 12 days in jail if he did not pay, for the second. A fine of more than S\$2,000 bars him from running for parliament for five years.

But Mr Chee believes it is more important to create awareness among Singaporeans of the need for change than to hold office. The authorities have indicated, since Mr Chee began his campaign, that they accept the need to be a bit more open.

Mr Chee was also cited for violating regulations by selling in the streets signed copies of his book on Asian political dissidents. Nevertheless, he continues to sell them and reports that the police swoop in to warn him to pack up or they will return to cite him. He stays put, though, and they do not return.

"Now there is a greater attempt to accommodate. In the past, they would have been more robust," says Zulkifli B. Baharudin, vice president of the Roundtable, a group formed to give those outside politics a forum through which to express their views, and one of nine "prominent citizens" the government nominated to serve as members of parliament.

**'We are doing well, so of course the prestige of the government must go up'**

More telling, perhaps, is that the government-influenced media has even encouraged debate on the free-speech issue by running guest columns on the subject. And senior minister, Lee Kuan Yew, has said Singapore will probably set up a sort of "Hyde Park," in reference to the speakers' corner in London, where one presumably would not need a permit to speak.

"The very fact that the No. 1 man has opened his mouth shows the rippling effect this has created," Mr Ambalam says. And this has given heart to people like Mr Zulkifli, who wrote a guest column to press for it.

"We believe that the establishment of free-speech venues is an incremental step that Singapore can well afford to take," he says. "Indeed, it is the minimum that should be expected for a society that aims to be a developed, cosmopolitan and great city."

But some government officials insist Singaporeans would not want that. Mr Chee counters that they could not possibly know what the people want. "Singaporeans, in this climate of fear, are very unwilling to talk about these issues and to be critical about the regime." And, at this point, there is only so far the government is willing to go to encourage them. With political discord sweeping through much of the region in the wake of the economic crisis, the authorities see little point in tempting their own fate.

"It's a very small call by Dr Chee and a few people," Mr Goh says. "I don't think I would concede a speakers' corner so quickly... But we will let the society evolve. Giving them more space to speak is not a problem, but it must be done in the context of law and order."

Chee Soon Juan is issued with a summons for making an alleged illegal speech; he was later fined AP

**FOREIGN POLICY** by Sheila McNulty

# Close neighbours key to maintaining stability

While the city-state has always pursued close relations with the major powers, it sees the unity of the Asean family as being of overriding importance

Goh Chok Tong, the prime minister, plays down his frequent trips abroad since the east-Asian financial crisis began. "It's to keep in touch with friends and make new friends."

He says the message he carries with him is not to write off the region because of its "difficult moments". But diplomats believe the fear of how much worse those moments might become is what has sent Mr Goh reaching out for closer ties with allies abroad.

Singapore is in a precarious position. Its 3m people are predominantly Chinese, and they are enclosed by the hostile, Malay-dominated Moslem countries of Indonesia and Malaysia, with combined populations of about 230m. Indonesia's closest point is only half an hour away by boat. Malaysia is linked by a causeway.

As Indonesia descended into chaos last year, mobs took out their aggressions on Chinese, whom they attacked and raped, forcing many to flee, distraught, to Singapore. When Malaysia's political and economic crisis intensified, Kuala Lumpur sought popular support by stoking anti-Singapore sentiment against the country's longstanding rival.

Singaporeans say Indonesia and Malaysia are so used to governing the Chinese minorities in their own countries that they cannot accept that the Chinese in Singapore are not only doing comparatively better, but also that they refuse to "bow and scrape" to their bigger neighbours.

Relations became so tense, diplomats say, the city-state heightened its defences. Singapore conducts military training in the US, Australia, New Zealand, France, the Philippines, Thailand, Brunei and Indonesia.

Though it has always pursued close relations with the major powers, political analysts report the city-state has intensified efforts to ensure powerful allies back them should the situation deteriorate.

Early in the crisis, Singapore offered the US deep-water naval berth facilities. Teo Chee Hean, second minister for defence and minister for education, says Singapore has long believed the US presence in the Asia-Pacific is important for its overall stability. This past month Singapore agreed to buy eight US-made Apache attack helicopters and shipped eight jet aircraft to France to train in Europe.

In addition to heightening Singapore's defence capabilities, these efforts tie in the foreign countries to the city-state. But Tommy Koh, ambassador-at-large attached to the Ministry of Foreign Affairs, says Singapore has made no adjustment in its foreign policy because of the economic crisis: it has consistently sought to be relevant and useful to its neighbours, the region, the major powers and the world.

Mr Koh notes Singapore is a proactive member of the regional diplomatic club, Asean – the Association of South East Asian Nations – which also groups Malaysia, Thailand, Indonesia, the Philippines, Brunei, Vietnam, Laos and Burma. It hosted the first ministerial conference of the World Trade Organisation. And Singapore's soldiers and police have participated in several UN peacekeeping operations.

Despite efforts to build relations further afield, Mr Koh insists, the immediate region is of primary importance. That was highlighted in Mr Goh's National Day speech, in which he spent 15 of the 28 pages discussing his neighbours. Singapore has tried to help them. When the crisis struck, the city-state contributed to the International Monetary Fund's rescue package for Thailand. And it went on to pledge US$5bn to help create a trade credit financing scheme for Indonesia.

But Jakarta balked at some of the safeguards. "There have been high expectations by the Indonesians of assistance from Singapore to Indonesia," Mr Goh says. "I think their expectations were a little unrealistic. We are, after all, a small country with limited resources."

Relations became particularly strained after B. J. Habibie took over as president of Indonesia. He resented comments Singapore had made about how the market might react to his appointment and since then has proceeded to dismiss the city-state as a dot on the map of south-east Asia and a country of "real racists".

Singapore fared no better in attempting to assist Malaysia. It was prepared to provide US$2bn but wanted assurances on Malaysia's supply of water to the city-state. Kuala Lumpur did not want any strings attached, so the deal unravelled. The countries have numerous disagreements, ranging from Malaysia's refusal to close a railway station on Singapore's territory to Singapore's refusal to loosen restrictions on the release of money Malaysian workers contribute to the national pension fund.

Diplomats worry that tensions between the countries will intensify when they sit down to tackle these issues. The crisis has also brought a breakdown in Asean's policy of non-interference in one another's internal affairs.

Among the new generation of leaders the crisis has helped install in Indonesia, the Philippines and Thailand, there is a newfound willingness openly to criticise members. Officials in all three expressed concern about the treatment of Anwar Ibrahim, Malaysia's sacked, beaten and jailed deputy prime minister – something their predecessors never would have done. "The Asean culture is changing towards greater transparency," Mr Koh says.

Singapore has, however, been reluctant to abandon the doctrine of "non interference" because of its "overriding concern to maintain the unity of the Asean family", he says. Singapore needs the grouping to maintain a forum in which it can keep its neighbours engaged. Diplomats say that after the departure of Asean's long-standing leader, former Indonesian President Suharto, Asean is rudderless and nobody seems appropriate to take the helm.

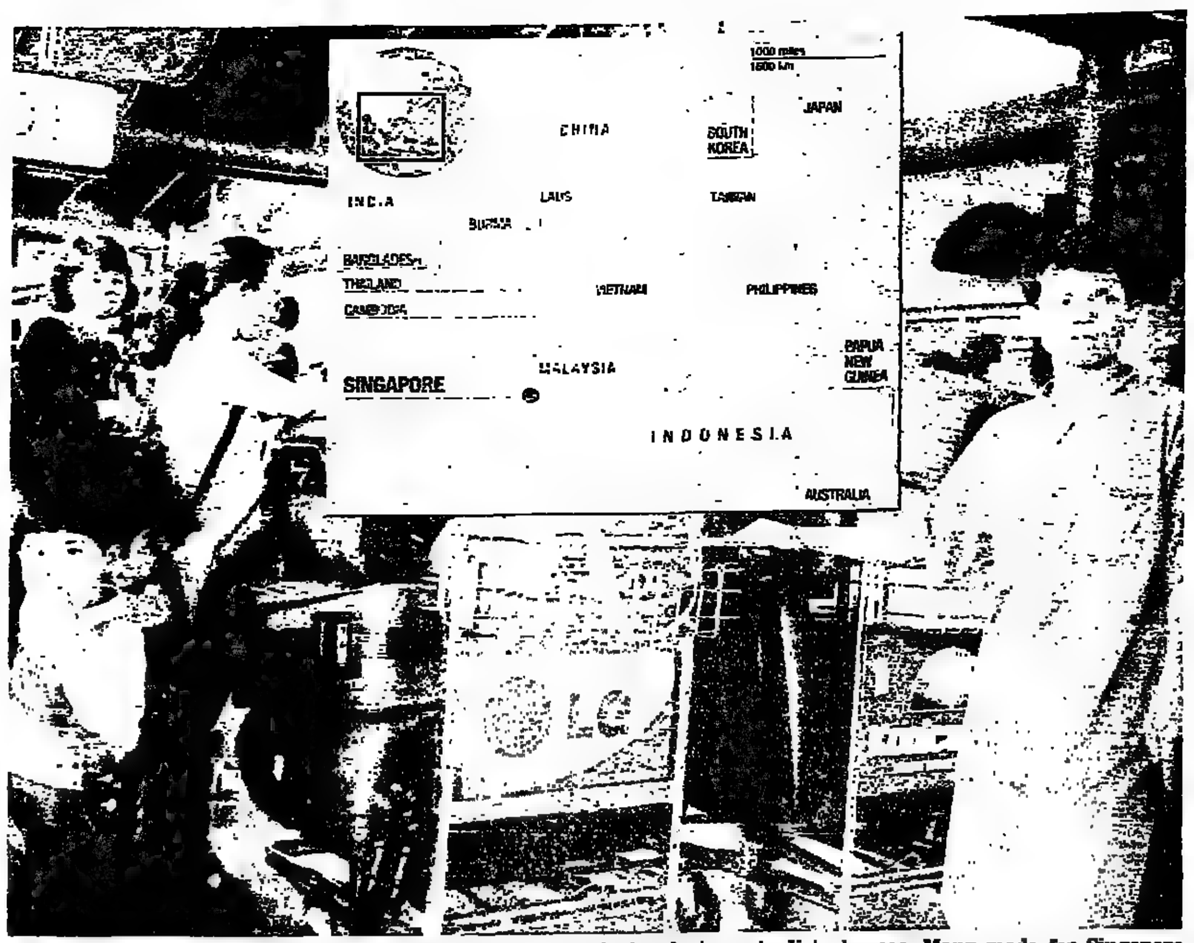
Although Singapore would be best suited, it cannot step forward as that would appear arrogant. "People would regard us as trying to steal the position from much bigger countries, and it's not necessary," Mr Goh says.

Even Hong Kong – which for years had the edge over Singapore – has grown confrontational as its more interventionist approach to the crisis has pushed it to second place, behind Singapore, in the minds of many investors. The two are competing to become Asia's second most important financial centre after Japan. When the Singapore International Monetary Exchange (Simex) announced plans to start a Hong Kong futures contract to develop its financial centre, the Hong Kong Stock Exchange barred the sale of real-time price information to Simex, and Hong Kong's financial services secretary, Rafael Hui, derided Singapore as an offshore betting centre.

Hong Kong has been criticised for not being as proactive as Singapore in improving its economic competitiveness, leading Hong Kong's trade and industry secretary, Chau Tak Hay, to note snidely that the government did not enjoy the advantages of Singapore's government: total control over parliament, the media, trade unions and its people.

Singapore was forced, once more, to defend itself but, as a matter of foreign policy, refused to be drawn into a fight. "There is no desire on the part of Singapore to do Hong Kong in," Mr Goh says. "In fact, we view Hong Kong as a very important partner in this region. We need two hubs for the region. Not just one."

If only Singapore's neighbours would give the city-state the benefit of the doubt. Then Mr Goh could ease off on the trips and focus more attention on running the country.




Indonesian Chinese at Jakarta airport fleeing the country during last year's disturbances. Many made for Singapore, which has been dismissed by Indonesia as a dot on the map of south-east Asia Montage: Bob Hutchison. Picture: AP

**INWARD INVESTMENT** by Edward Luce

# Aggressive drive for service companies

A change of tack has been instigated to reduce the economy's reliance on production of electronics products

In spite of being hit hard by the regional economic slowdown last year, Singapore has redoubled efforts to boost itself as a centre for both high-level manufacturing and financial services. Richard Hu, minister of finance, impressed even Singapore's detractors with a series of painful steps to reduce the costs of operating in the city state.

The measures, which reduced costs by an estimated S$10.5bn, or 7 per cent of gross domestic product, included a steep reduction in wage levels and cuts to rental fees on government owned industrial sites.

However, economists say that the measures, which elicited one or two wry comments from senior officials in Hong Kong, where the government has much less scope than its Singaporean counterpart to interfere in the domestic economy, may not be enough to offset the savage decline in global demand for electronics goods.

Singapore, which depends on electronics and electronic-related products for 57 per cent of its exports, has suffered from a number of foreign cutbacks, with companies such as Matsushita shifting production lines to cheaper, offshore sites. Although other foreign manufacturers, such as 3Com Technologies, the US modem and electronic organiser maker, and Caltex, the US oil company, have announced new investments in Singapore (with the latter shifting its global headquarters from Dallas to Singapore), economists say that the city state is increasingly hard-pushed to compete with other parts of Asia, not least because the Singapore dollar has depreciated by less on a trade-weighted basis than its neighbouring currencies.

As a result, the city state is making a big push to attract more service-based companies to Singapore, including banks, fund managers, healthcare providers and educational establishments. At the same time – through tax incentives and general cost reductions – the city-state is aggressively promoting itself as a regional headquarters for global companies.

Jock McKenzie, senior vice-president of Caltex, which will employ 65 people in its Singapore head office, says that the city state compared well with Hong Kong on costs.

"We looked at both city-states very closely and there was very little – except in terms of cost – to choose between them," says Mr McKenzie. "As a US company, the tax incentives made very little difference because we are still subject to US corporate taxation."

However, others say that few general conclusions can be drawn from the Caltex decision owing to the fact that Singapore already had an in-built advantage as a centre for petrochemicals refining and in trading of oil derivatives. The city-state faces a much bigger task in persuading financial investors to move from Hong Kong, say bankers.

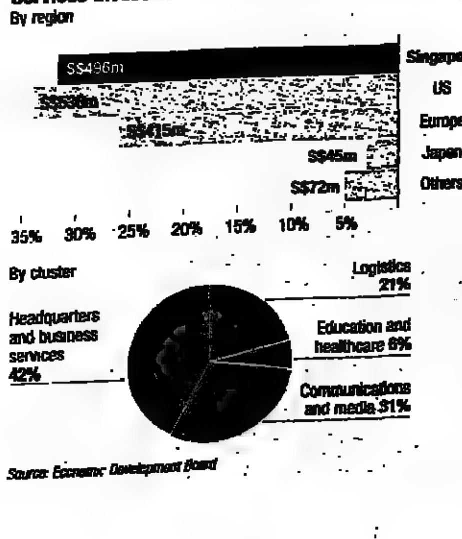
"In Hong Kong, it seems that everything is legal unless stated otherwise but in Singapore it's the other way round," says one banker. "Even though Singapore is addressing this image problem, Hong Kong will remain as laisser-faire as you are likely to get."

Nevertheless, some banks, including ABN Amro and Deutsche Bank, have benefited from the tax breaks on offer for those locating their Asian headquarters in Singapore. But both retain operations in Hong Kong. "We cannot ignore Hong Kong because it is the obvious base for operations in China," says Ricardo Larrabure, chief financial officer of ABN in Singapore. "But, at the same time, Singapore offers a very attractive package and is consulting banks in detail about what it should do to make itself more attractive."

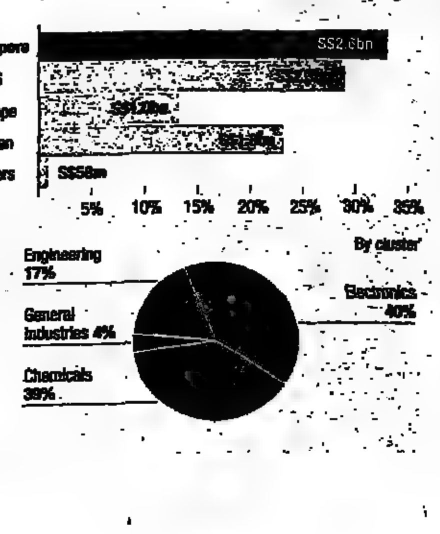
Bankers say that Singapore's problem is that no bank could afford to by-pass Hong Kong while plenty could afford to by-pass Singapore.

In practice, they add, Singapore is likely to remain a viable location for management of Asian treasury operations, given its strong foreign exchange market, and as a centre for south-east Asian corporate and structured finance. But Hong Kong, with its stronger capital markets, is likely to retain the bulk of investment banking operations. "Hong Kong is more expensive but this is where most of the markets are located," says one banker in Hong Kong.

Services investment commitments 1998
By region




Manufacturing investment commitments 1998
By region




Source: Economic Development Board

**BONDS** by Edward Luce

# Pivotal to a wider ambition

## Singapore has no pressing need to develop a bond market, but sees it as a crucial element in becoming a financial centre

Among the many pieces of conventional wisdom to have emerged from the Asian financial crisis is the view that Asian countries would be wise to develop active domestic bond markets.

Yet, in a region where little – and, in some cases, nothing – has so far been done by governments to extend domestic yield curves, Singapore stands out as an obvious exception. The irony of this is clear. Singaporean banks and companies did not, unlike their Thai and Korean counterparts, borrow excessive amounts of short-term, dollar-denominated debt prior to the crisis and were therefore least scathed by the ensuing turmoil.

Likewise, the Singaporean dollar has depreciated by less than the currencies of any of its neighbours (barring Hong Kong, which retains its peg to the US dollar). Of any country in the region, the city-state thus has least need to develop a domestic bond market.

Yet Singapore's response to the regional crisis has been instructive. Unlike its neighbours it has sought to profit from the turmoil by projecting itself as an island of stability, predictability and, above all, a centre from which foreign banks can safely manage their financial operations for the region.

Government officials have been quick to recognise that Singapore cannot present itself as a credible financial centre without being able to offer liquid capital markets. "As a financial centre we must be able to offer a bond market," said Teo Swee Lien, head of financial promotion at the Monetary Authority of Singapore. "A bond market is an integral part of being a financial centre."

In typical Singaporean style, the MAS and other bodies have set about constructing what are considered the right conditions for a domestic bond market to thrive. These include:

- extending the government yield curve to 10-years;
- broadening the scope of the primary dealership system for government bond distribution;
- offering tax incentives to stimulate a secondary market in Singaporean bonds (most of which have been traditionally held in the vaults of the city state's five leading domestic banks until maturity);
- offering tax breaks for foreign banks to set themselves up as "bond intermediaries" – or syndicate lead managers;
- scrapping reserve requirements for swaps out of the Singaporean dollar.

Most of this has been done on the advice of foreign banks and other financial experts. "At every step of the way the MAS has come to the market and asked what they needed to do," said Zafar Alam, regional head of debt capital markets for ABN Amro in Singapore. "This is a textbook case of how to construct a bond market."

On the investor side, Singapore has also been able to draw on a large pool of liquidity through the Central Provident Fund, the state savings body which collects annual compulsory contributions from both employers and employees. This – which accounts for the fact that Singapore has the highest ratio of domestic savings in the world at more than 40 per cent of gross domestic product – is seen as an unparalleled resource.

In order to stimulate investor interest, the city-state has encouraged individuals to outsource management of their CPF savings to unit trusts. Foreign asset managers have also been offered tax incentives to bid for CPF money and other sources of domestic savings.

"Given the huge amount of domestic funds based in Singapore, the opportunity to bid for domestic unit trusts greatly enhances Singapore's attractiveness as a centre for fund management," says Peter Hames at Aberdeen Asset Management.

Being at the helm of a very closely managed economy, the MAS has had little difficulty in persuading government-owned and government-linked entities of the merits of issuing bonds. Although neither the Jurong Town Corporation, an industrial venture, nor the Housing Development Board, which dominates the city state's property market, have any need of extra funds, both have issued benchmark Singapore dollar-denominated bonds in the last few months. Other parastatal groups are expected to follow suit.

Similarly, there was no shortage of demand for the bonds. The opening up of a foreign currency swaps facility has encouraged borrowers such as General Electric Credit Corporation, Ford and the International Finance Corporation to issue Singapore dollar bonds as well. Others, including the Asian Development Bank, are expected to follow suit later this year.

Sunil Sreenivasan, chief executive of Citibank in Singapore, which has lead-managed several of the foreign and domestic offerings, predicts there will be between S$7bn and S$10bn worth of bond issuance in 1999. This includes government offerings which are now flagged well in advance on an auction calendar.

"We know of several regional multinationals which are looking actively at the Singapore market," says Mr Sreenivasan. However, others say that Singapore may be too brazen in its ambitions to become a regional bond centre for Asian borrowers. One of the key lessons of the Asia crisis is that Asian companies and banks should – as far as practical – avoid unnecessary foreign exchange risks when it comes to raising capital.

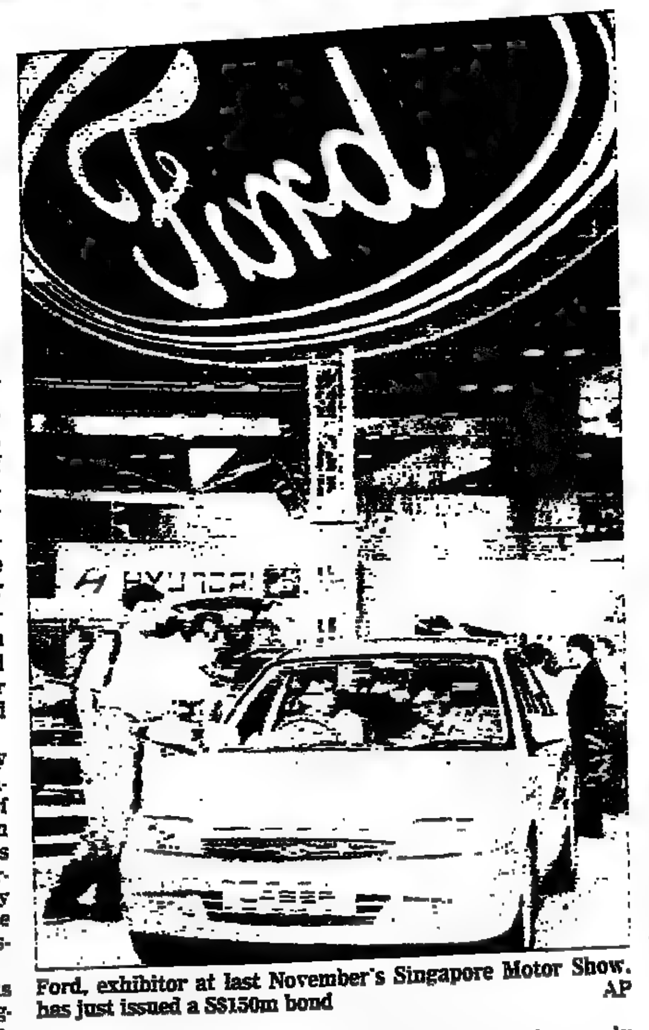
It is unlikely that many Asian corporations would have sufficient assets denominated in Singaporean dollars to justify incurring big liabilities. For those swapping out of the currency, which, for the time being, is a condition of issuing in the currency, only the world's leading currencies are likely to be on offer. Thus, it makes little sense for a Thai company to issue bonds denominated in Singaporean dollars when it would prove difficult to swap the proceeds into Baht.

Likewise, bankers are sceptical that Singapore will find it easy to establish itself as a centre for bond issuance in foreign currencies such as the euro or the US dollar. "If a Hong Kong bank or a Korean electronics company wants to tap the dollar market it will go to the yankee bond market in the US or the eurobond market in London," says one foreign banker. "Singapore will never have the depth or breadth which London and New York can offer."

Nevertheless, bankers say the city-state can play a viable role as the Asian leg of global bond offerings. It can also play on its advantage as a centre where Asian borrowers will be more easily recognised and thus more quickly assessed by investors.

Many foreign banks clearly agree with this prognosis having built up sizeable capital markets teams in Singapore. The fact that Simex, Singapore's derivatives exchange, is actively studying plans to launch futures contracts based on interest rates in regional currencies is also considered a plus point. "Singapore wants to present itself as a one stop shop with all the facilities of a financial centre," says Chris Podbury, head of futures at Jardine Fleming. "It doesn't necessarily expect the biggest contracts or the most liquid markets in everything but it wants to be able to offer the full range of financial instruments."

Judged against this less extravagant benchmark, many believe that Singapore can succeed in its aim to build a viable domestic bond market. While the early stages of its development may look somewhat artificial – with government entities tapping capital they don't need from a semi-captive audience of domestic investors – it may not take long for the Singapore bond market to reach what officials describe as a "critical mass". Liquidity, in other words, may not be that far off.



Ford, exhibitor at last November's Singapore Motor Show, has just issued a S$150m bond AP

**BANKS** by Edward Luce

# Cosy regime begins to feel the pressure

## The need for change has been recognised in the face of the effects of the Asian crisis on loan portfolios

Wherever you look in Singapore, it seems, there is usually a bank staring back at you. With a population of 3m, Singapore is one of the most over-banked countries in the world.

Considering the relative homogeneity of the domestic economy and that the mortgage market is heavily subsidised by the government, it is hardly surprising Singapore's five leading banks achieve such unimpressive returns on equity.

**Singapore banks: domestic & overseas non-performing loans**

| | | Gross (%) | Collateral (%) | Net (%) |
|---|---|---|---|---|
| Singapore | | 10 | 70 | 3 |
| Overseas: | Malaysia | 25 | 50 | 13 |
| | Greater China | 5 | 65 | 5 |
| | Indonesia | 70 | 20 | 56 |
| | Australia | 5 | 80 | 1 |
| | Philippines | 15 | 60 | 6 |
| | Thailand | 40 | 35 | 26 |
| | Korea | 25 | 30 | 18 |
| | Others | 10 | 70 | 3 |

| | DBS Bank | OCBC Bank | OUB | UOB |
|---|---|---|---|---|
| Gross NPL (%) | 11.6 | 14.2 | 16.5 | 12.1 |
| Net NPL (%) | 4.4 | 6.1 | 6.2 | 4.6 |
| Loans (June 1998; S$m) | 43,627 | 35,782 | 23,573 | 28,672 |
| Net NPL (S$m) | 1,916 | 2,180 | 1,463 | 1,325 |

Source: SG Securities Research

Until recently, the Monetary Authority of Singapore did not see this as a problem. While the leading banks remained profitable and continued to lend cheaply to government-linked corporations, there was little need to address the underwhelming performance of the domestic banking sector.

Yet the effects of the Asian financial crisis on the loan portfolios of banks such as the Development Bank of Singapore and the Overseas Chinese Banking Corporation have persuaded officials of the need to press for change. The appointment of John Olds, formerly at J.P. Morgan, as chief executive of DBS was intended to signal that the era of domestic protection was drawing to a close.

Mr Olds, the first foreigner to head a Singaporean bank, has made it clear he intends to change the internal culture at the state-owned bank. This will include an aggressive overseas expansion drive – already under way with the majority purchase of Thai Danu bank and the Philippines-based Bank of South East Asia last year – and preparation for the opening of the domestic banking sector to full foreign competition.

"We want to achieve the kinds of return on equity you see for Hong Kong banks," says Mr Olds. Yet Mr Olds and Alex Au, his recently appointed counterpart at OCBC, who is Hong Kong-Chinese, face daunting challenges in their quest to improve shareholders' return on equity.

For a start, there is little sign of movement towards consolidation of the domestic banking sector even though Lee Hsien Loong, deputy prime minister, has indicated that a merger or two would be welcome. Mergers would allow Singapore's banks to create greater economies of scale for overseas expansion and enable them to leverage their balance sheets more effectively.

Although DBS has acquired POSBank, the domestic postal savings bank, there appears to be little opportunity for consolidation between the remaining five. Part of the problem is that DBS's four competitors remain mostly family-owned and are thus not susceptible to unfriendly bids. "Singapore should have fewer banks but it is difficult to see how or when this is going to happen," says a local analyst.

Second, there is a limit to what banks can do to improve their performance in the domestic market. Michael Sia, banking analyst at S.G. Securities, says that Singaporean banks are hindered by the limited range of domestic borrowers. Unlike in Hong Kong, where banks lend to a range of small and medium-sized enterprises at a margin over prime interest rates, Singapore loan portfolios are stuffed with AAA rated government-linked corporations and foreign multinationals based in the city-state. The benchmark lending rate is thus usually the Singapore Interbank Offered Rate. "It is difficult to improve your margins when you are lending at such low rates," says Mr Sia.

**'There are big logistical difficulties in acquiring banks in other markets'**

Third, there are big logistical difficulties in acquiring banks in other markets, whether it be in Malaysia, Thailand, Indonesia or the Philippines. "You have to be careful to do your due diligence," says Roger Lum, banking analyst at Credit Lyonnais in Singapore. "There is always the danger you will discover hidden non-performing loans only after you have made the acquisition."

In addition, although the Asian crisis has presented Singaporean banks with unprecedented opportunities to muscle into previously closed markets, the region's stronger and more desirable banks are clearly not for sale.

Last, the clock is ticking towards the day when full liberalisation occurs. Mr Lee has indicated this could take a maximum of five years. But others, including Sunil Sreenivasan, head of Citibank in Singapore, which has a quota of 20 local branches, say the authorities have hinted that they have plans to liberalise the city state's controlled automated teller machine network sooner rather than later.

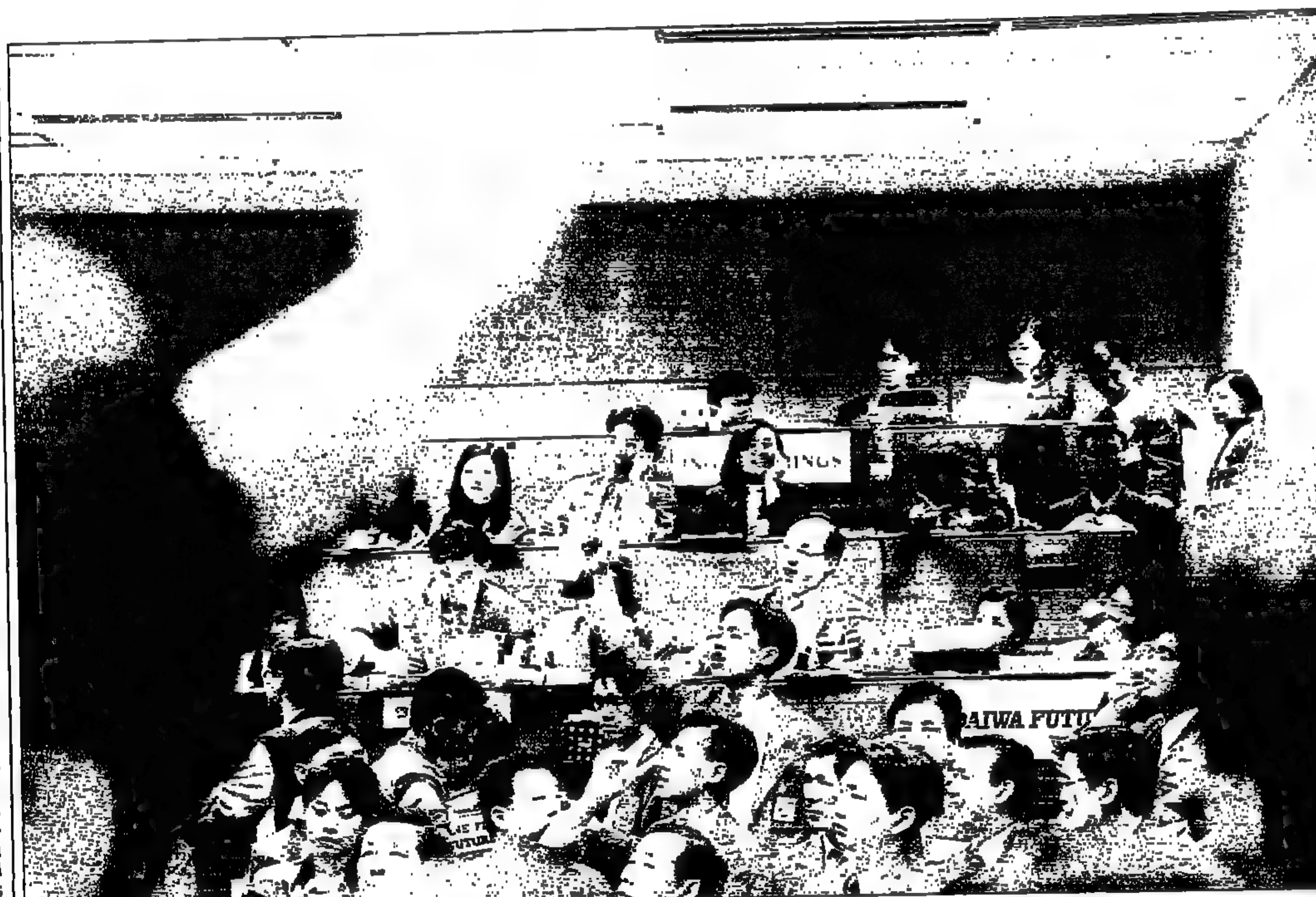
Foreign banks are excluded from the domestic sector's mutual access ATM network and are thus debarred from offering access to international networks such as Cirrus. "Bricks and mortar [physical branches] don't matter so much any more," says Mr Sreenivasan. "What counts is the ability to compete electronically."

In addition, foreign banks are clearly interested in making acquisitions in Singapore, although this will still not be possible until the MAS has scrapped the banks' dual listing system which limits foreign shareholding to 40 per cent of total equity. On some fronts, the MAS has made quite radical changes, most notably by imposing much stricter disclosure requirements on domestic banks.

This is a departure from the city-state's previously secretive disclosure practices and brings reporting standards closer to those prevailing in Hong Kong.

Analysts expressed surprise at the level of detail banks disclosed about their NPL exposure to other parts of Asia in their 1998 results. "In the early 1980s all we got was the net profit figure," says one analyst. "Now we get the real minutiae."

The MAS, which talks of moving from "regulation to supervision" of the banking sector, has also reduced capital adequacy requirements on Singapore-based banks and encouraged banks to issue more debt by permitting a slice of reserves to count as tier-two capital. "Singaporean banks are still very conservative but the MAS is pushing them to change," says a foreign banker. "And the MAS always gets its way in the end."


Simex, the Singapore International Monetary Exchange, now offers futures contracts on the stock market indices of Taiwan, Hong Kong, Thailand and Singapore AP

**STOCK AND DERIVATIVES MARKETS** by Edward Luce

# A mountain still to climb

## Few are confident that Singapore can easily build an equities market to rival Hong Kong

Singapore has never been Asia's first port of call for those wishing to trade equities or derivatives.

With a stock market mostly dominated by government-linked entities and other domestic companies, the city-state seemed illiquid and unexciting compared with Hong Kong or Tokyo.

With Malaysia's decision to impose strict capital controls on foreign portfolio investment last September, Singapore has even been deprived of its one heavily traded sector, the over-the-counter market in Malaysian shares.

The city-state's decision last November to de-mutualise and eventually merge its stock and derivatives exchanges was presented as the first big step on the road to the creation of a much livelier and attractive environment for trading exchange-listed products in Singapore.

The move, which was followed by a similar announcement in Hong Kong earlier this month, has been greeted warmly by the markets. Yet few are confident that Singapore can easily build a market to rival either the volume or liquidity of Hong Kong.

"The Singapore stock exchange is never going to rival the Hong Kong stock exchange," says one banker. "It is a completely different environment."

With a fraction of the market capitalisation of the HKSE, the SES has a mountain to climb. Although it has long touted for overseas business, almost no foreign company has chosen to list either primary or secondary shares in Singapore.

By prodding the SES to liberalise brokers' commission fees and convert itself into a profit-seeking company answerable to its shareholders, the Monetary Authority of Singapore hopes to reduce the cost of both trading and listing shares.

But with such a poor concentration of liquidity few believe the SES will acquire an international dimension in the near future.

"We want to become a centre for overseas listed depositary receipts," says an official. "But we recognise this could take years to build."

The MAS has also sought to attract international asset managers to the city state by liberalising access to Singapore's central provident fund, worth more than US$60bn, a number of fund managers have already taken advantage of its decision to allow Singaporeans to outsource management of their savings to foreign-run unit trusts and other vehicles.

The move, seen as a carrot to entice more fund managers to Singapore, has been accompanied by a relaxation of restrictions on the types of security in which CPF money can be invested. Previously, it was restricted to government bonds and property.

"Singapore is promoting asset diversification," says Robert Tomlin, managing director of Dane Court, an asset manager. "I would describe this as a genuine paradigm shift from a highly regulated environment to a much more laisser faire system."

However, other fund managers are sceptical about whether the liberalisation of CPF funds will either attract more fund managers to Singapore or result in a significantly greater volume of activity on the SES.

"These are public funds, so fees are kept at wafer-thin levels," says a US investment banker. "It really isn't the type of business that pays our bills."

Bankers are more positive about the outlook for Singapore's derivatives market. In contrast to the Hong Kong Futures Exchange, which offers mostly domestic based contracts, Simex (the Singapore International Monetary Exchange) has been fighting aggressively for regional business.

**'In contrast to the Hong Kong Futures Exchange, Simex has been fighting aggressively for regional business'**

Simex now offers futures contracts on the stock market indices of Taiwan, Hong Kong, Thailand and Singapore and has said it will launch a contract on the Kuala Lumpur composite index once capital restrictions have been eased in Malaysia.

Elizabeth Sam, vice-president of Simex, says the exchange is also looking actively at launching contracts on regional interest rate markets which would eventually include listing futures on regional government bond markets.

Although the launch of fixed income contracts is some way off, given the lack of liquidity and trading in neighbouring government bond markets, Simex is the first regional derivatives exchange to signal its intention of creating such a market.

Many have expressed surprise and even admiration at Singapore's willingness to poach business from its neighbours.

"Before the regional financial crisis Simex would have been much more cautious about listing contracts on foreign markets," says an analyst in Singapore. "But there is much less emphasis on Asean consensus nowadays. There is a greater accent on competition."

Simex's credibility received a further boost last month when it joined Globex, the world derivatives alliance between the Chicago Mercantile Exchange and Matif, the French derivatives exchange.

The move – again, a first among regional derivatives exchanges – will enable users of the electronic platform to trade each other's contracts on a 24-hour basis with Singapore as the Asian leg of the time zone.

It will also enable market users to cross-margin positions on each exchange and thus reduce costs. "Joining Globex is a big plus factor in Simex's favour," says Chris Podbury, head of futures trading at Jardine Fleming in Singapore.

However there are still obstacles to the creation of a liquid over-the-counter derivatives market in Singapore despite the fact that Simex intends eventually to list OTC-based products.

Bankers say that MAS regulations act as a constraint on the development of a decent repo market owing to confusion about regulations governing "shorting" – selling a security you do not own in the hope its price will fall before you have to deliver.

Shorting is an essential component of a repo, or securities repurchase, market which itself is indispensable to providing real liquidity in the cash markets, say bankers. Again, the MAS has taken measures to create a repo market but the city-state is still hampered by a reputation for interference and micro-regulation.

"The Singaporeans are doing all the right things and they are doing them by the textbook," says a banker. "But it is difficult to shake off the view that Hong Kong will always be more laisser faire than Singapore."

**INFORMATION TECHNOLOGY** by Alan Cane

# Master plan for e-commerce

### Measures aim to encourage the world's leading companies to regard Singapore as an attractive place to do business

Singapore's commitment to information technology as the means to become an "intelligent" island, a "virtual intermediary" at the heart of the region, capable of handling S$4bn worth of electronic commerce a year by 2003, is incontrovertible.

Innovations that are commonplace on the island remain the stuff of the future elsewhere. Peter Walker, a principal with the Singapore office of A. T. Kearney, the management consultants, says: "If there are superior examples, I do not know of them."

At Changi Airport, for example, Singaporeans who travel extensively can clear immigration in seconds thanks to a system which compares an image of their thumb-print, stored in a "smart" card, with a live image taken on the spot with a fingerprint scanner.

The two images must match before the immigration gate opens. By last December, almost 6,000 Singaporeans had been issued with cards and further extension of the scheme is in progress.

The airport was also the first in the world to offer a free personal computer connection service with some 30 sockets installed in the departure and transit lounges.

Singapore has held the distinction of being the world's busiest shipping port since 1982, with 800 or more ships in its waters at any time. The need to juggle 35 berths and hundreds of other pieces of equipment means the PSA Corporation, responsible for commercial management of the port, has to behave like the conductor of an orchestra, according to Dr Yeo Ning Hong, PSA chairman. A computer system which leans heavily on artificial intelligence is the key. "We use every piece of equipment as effectively as possible," he says.

PSA is especially proud of its inventory management, based on bar-coding, which means that cargo containers can be stacked nine high in the port's limited storage areas compared with only two to four elsewhere.

Automation is everywhere. "We are moving from a blue collar industry to an information technology culture," Dr Yeo says. For example, women operate the port's huge container-handling cranes from a remote control centre.

In the city, metal gantries over the roads warn motorists they are entering the zone where Singapore's pioneering electronic road pricing system is in operation. Launched last year, it replaces a 20-year-old manual system which had outlived its usefulness. Its aim is simple: to curtail excessive use of the private car on the city's crowded streets.

To travel in the inner city, cars and motorcycles must be equipped with a small device capable of accepting a smart card. The card must be charged with electronic cash. On entering a priced zone, radio signals between scanners on the gantries and the in-car device automatically result in the prescribed payment being deducted from the card. Cameras on the gantries detect any road user attempting to avoid paying the toll.

The road pricing system is a key part of the Land Transport Authority's "integrated traffic management system", which will combine a variety of monitoring and scanning technologies to provide, the LTA says, "close, active and constant interaction between the road and public transport users and the land transport system".

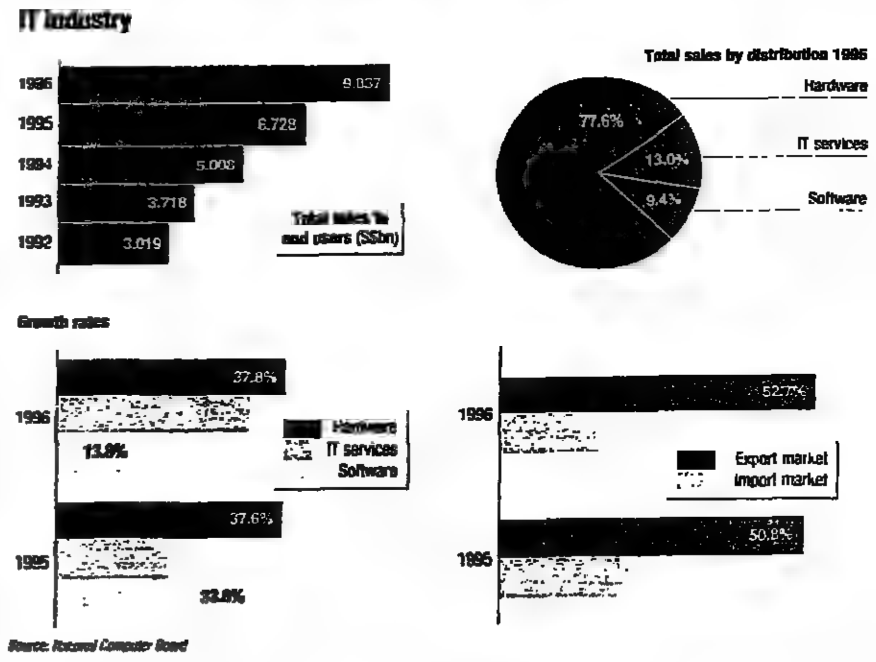
Automation in the port, airport and on land is only one element in Singapore's master plan to become the electronic commerce hub of the region. There is an emphasis on measures which will encourage the world's leading companies to regard Singapore as an attractive place to do business.

Mr Leong Kheng Thai, the telecoms regulator, for example, argues that it is as much his responsibility to see that Singapore Telecoms remains price competitive with other major carriers as to ensure fair play for SingTel's customers and competitors.

The master plan, announced last autumn by Brigadier-General Lee Hsien Loong, deputy prime minister, aims to persuade international companies to base their e-commerce activities in Singapore making use of an internationally linked e-commerce infrastructure and what the government describes as an "e-commerce savvy culture".

Central to this latter theme is Singapore One, described as the world's first nationwide broadband (high capacity) network. By the end of the current year it is expected that the network will have the capability of reaching every home, office and school on the island. Connection will be through cable modems or ADSL (Asymmetric Digital Subscriber Line), technologies that are well understood elsewhere but whose cost has so far prohibited their use. Connections to Singapore One are heavily subsidised.

The network, driven principally by the National Computer Board, the National Science and Technology Board and the Telecommunication Authority of Singapore, is being used for government information, education, entertainment and shopping. By 2001, it is expected that all key government services will be provided on-line.



Source: National Computer Board

Singapore is taking seriously the need to develop a technological culture. "After all," says Andrew McDougal, British Telecommunication's development director for the region, "you do not meet astrophysicists in Singapore whose fathers were also astrophysicists. The storehouse of knowledge you find in more developed countries does not yet exist here".

The master plan for education envisages a personal computer for every two school children and up to 30 per cent of the curriculum to be delivered on-line. Michael Yap, newly appointed chief executive of the National Computer Board, speaks enthusiastically about the "IT bus", a motor coach kitted out with PCs which visits workplaces to spread computer literacy among adults. PC penetration is already about 45 per cent; internet access about 16 per cent. We are trying to promote "thinking schools and a learning nation," says Rear Admiral Teo Chee Hean, education minister.

There is a sharp awareness of the less obvious problems of establishing an effective e-commerce culture. The NCB is a joint venture partner in Netrust. With responsibility for validating electronic transactions, it is the only "trusted third party" in the region.

**STRATEGY** by Alan Cane

# Knowledge crucial to economy

### The country's aim is to be a world class player serving the global market in a range of selected services

Singapore's Economic Development Board set out its stall two years ago. It initiated a study, "Industry 21", to develop up-to-date strategies for the island's manufacturing and exportable services sectors.

The aim was and is for Singapore to become, the EDB said, "a vibrant and robust global hub of knowledge-driven industries", with manufacturing and exportable services constituting at least 40 per cent of the island's gross domestic product and creating some 20,000 jobs a year.

That was before the Asian financial crisis. Today, the island's financial strength has enabled it to weather the economic storm better than its neighbours and it is continuing to press ahead with plans to become a knowledge-based economy.

Speaking at an industry 21 seminar in January this year, Lee Yock Suan, minister for trade and industry, said: "Singapore should aim to be a world class player serving the global market in selected services such as communications and media, education and healthcare."

It is already an important centre for the electronics industries. Willie Cheng, Andersen Consulting's managing partner in Singapore, sums up the situation neatly. "Almost everybody who is anybody has a base here," he says.

Competition is intense, controlling prices and forcing manufacturers to world-class standards. "Singapore is a good test bed for these products," Mr Cheng says.

For some of the newer, knowledge-based industries – personal computer hard drive manufacturing, for example – Singapore is a global leader, attracting contracts from around the world.

The UK-based Calluna Technology, for example, designer of state-of-the-art miniaturised hard drives only 5mm high, has contracted with PCS Peripherals of Singapore for volume production.

Liew Heng San, managing director of the Economic Development Board, explains that the legacy of a failed German electronics group in Singapore was a pool of talent which found profitable expression in the disk drive business.

"Now, five of the six top players in the world manufacture in Singapore," he says. "This is a place where they can bring products to market very quickly."

About half the top 20 semiconductor manufacturers are also represented on the island. Five of the world's top 10 contract manufacturing companies have operations in Singapore.

A combination of strategic investments, tax incentives and research and development grants has tempted some 5,000 multinational companies so far to set up business in Singapore.

The EDB is concentrating on a number of key areas, including electronics, chemicals and life sciences. In electronics, the aim is to generate S$150bn worth of output by 2010, equivalent to 150 new electronics projects over the period.

The emphasis in the life sciences is on drugs, medical devices, agricultural products and food intermediates. The island wants to be home to 15 world class life sciences companies by 2010.

Singapore's dilemma, however, is how to continue to attract overseas investment and technology while generating a spirit of entrepreneurship among native Singaporeans. A fear of failure and the social disgrace which can follow has tended to dampen creativity among the islanders, rendering world-class companies like Creative Technology, the computer sound specialist, comparative rarities.

Up to 70 per cent of Singaporean industry is either government-owned or has government links – the powerhouse is Singapore Technologies, a huge industrial conglomerate with dozens of companies in engineering, electronics, financial services, property and life style.

Most industrialised countries now believe that competition and markets are more reliable generators of growth and entrepreneurial activity than government involvement. The Singapore government, however, has created a raft of schemes which it hopes will achieve the same end. Of these, "Technopreneurship 21", chaired by the deputy prime minister, is only one.

Others include the Cluster Fund, which aims to sustain and build up industrial vibrancy and robustness by encouraging diversification in the key industries, and the Local Industry Upgrade Programme, which aims to help local information technology companies form partnerships with industry-leading multinationals with the objective of improving their capabilities.

In the same vein is the Promising Local Enterprises scheme through which the National Computer Board provides guidance to 10 selected companies to help them achieve their business objectives. The EDB, as part of the same programme, hopes to develop 100 local companies, each with annual revenues of at least S$100m by 2005.

Mr Cheng of Andersen Consulting believes it is time to sample the proof of this particular pudding: "We cannot continue to borrow technology any longer. This is the critical stage: the physical infrastructure is in place," he says.

CASE STUDY
**CREATIVE TECHNOLOGY**

# A blast of entrepreneurial spirit

Creative Technology's striking headquarters in Singapore's International Business Park stand as a monument to one of the island's few home grown electronics groups to have achieved global recognition.

Founded in 1981 by Sim Wong Hoo, chief executive and still the company's principal driving force, Creative is known by computer users everywhere as the designer and manufacturer of the "Sound Blaster" family of cards – complete printed circuit boards – which give today's personal computers the ability to talk and play music.

Some 60 per cent of PC audio systems today are based on Sound Blaster technology. The company is now expanding into other aspects of the multimedia world, including graphics, digital video disk technology, videoconferencing and, remarkably, digital pianos.

Mr Sim is a rarity: a successful Singaporean entrepreneur who built up his business without recourse to venture capital and whose principal product has become a world standard. "When I started, I had not heard of the term vc," he says with a laugh. Now he has been appointed chairman of the private sector panel of Technopreneur Committee 21, a government-sponsored initiative designed to lay the foundations for the creation of a new generation of entrepreneurs on the island.

An electrical engineer by training, the young Sim Wong Hoo found the emerging personal computer industry to be a fertile field. But his was no overnight success. "We spent 10 years bootstrapping [funding activities out of revenues] ourselves," he says. "We always wanted to be creative, to be different and to carry out research and development."

In 1984, the new company created Singapore's first personal computer, complete with speech synthesizer capable of English and Mandarin Chinese. It was the forerunner of the "Cubic CT", launched in 1986, which Mr Sim modestly describes as the world's first multimedia PC. It was, however "five years ahead of its time. It was too costly

**'We always wanted to be creative, to be different and to carry out research and development'**

and too complex", he says ruefully. Profit margins were slim and extensive customer support proved essential.

The chief problem for the fledgling company, however, was focus. To survive, it was spreading itself thinly over a diverse range of activities – selling PCs and PC add-ons, carrying out software and hardware development on a piecemeal basis.

The solution was to concentrate on PC sound where Creative already had considerable expertise. Furthermore, Mr Sim reasoned, the hardware would be difficult to copy while audio software would yield satisfactory margins.

Building a low cost music card proved the easy part. Establishing the technology as a world standard took three years and involved Mr Sim in a prolonged sojourn in San Francisco where he set up Creative's US operations and developed an understanding of the US market that is, he says, superior to most Americans.

The breakthrough, in 1989, was the launch of Sound Blaster, a pc card with 11-voice synthesizer, text to speech capabilities, digitised voice input and output and a digital interface for musical instruments. Stripped of the jargon, Sound Blaster brought a quality and realism to mass-market PC sound that had not been experienced before.

By 1990, it had become the best selling add-on board for the PC: Sound Blaster Pro, launched in 1991, was rapidly adopted as the stereo sound industry standard for multimedia pcs. In August that year, Creative announced its initial public offering on the US Nasdaq market, the first Singaporean company to be so floated.

Sound Blaster was not a technologically complex product. And, at less than US$200, it provided value that was difficult to beat. "We put in all the right features at the right price," says Mr Sim. "We are the king of audio; our products are bullet-proof."

This is the key to Mr Sim's belief that the company is comparatively safe from copycat products and from PC manufacturers embedding audio technology in the circuitry of their computers. His argument is that sound is difficult, the PC market is complex and potential competitors would be unwise to invest in products Creative can supply at very low prices. "It is not worth the risk," he concludes.

Creative is a past master at creating audio capabilities at a reasonable price. It pioneered free support for software developers incorporating audio capabilities in their products. It also offers a free verification service for software developers needing a guarantee that their products will work with Sound Blaster. "We have 10,000 games in our warehouse," says Mr Sim.


Sim Wong Hoo: "Our focus is the customer"

Since the success of Sound Blaster – there are now some 75m users worldwide – the company has strengthened its technological base, acquiring E-mu Systems, a designer of microchips for the multimedia market, in 1993, and Sharevision, a videoconferencing product manufacturer, the same year. More recently, it has acquired Cambridge SoundWorks, a US-based manufacturer and retailer of stereo speaker systems.

In 1998 its turnover reached US$1.23bn with pretax profits of $152.8m. Analysts are expecting flat revenues and profits for the current year as a graphics price war and shortage of laser heads for digital video disk players take their toll.

Indeed, Creative's financial record over the past few years has not been faultless. The chief problem has been a tendency to return to its old habit of involvement in too many sectors – the fiercely competitive CDRom drive manufacturing business, for example. In 1996, it lost some S$100m when the market for CD-Rom drives suffered a glut and prices crashed.

Some analysts are concerned that the group's focus on "personal digital entertainment", which sees the pc as the heart of home entertainment surrounded by Creative peripherals, including sound cards, digital video disk players, graphics cards and video cameras, is misguided. "We are sceptical about its success since we believe most consumers would want to purchase from multiple vendors," notes John C. Chan, analyst with Singapore-based broker G. K. Goh.

Mr Sim denies the group is in danger of losing its focus again: "Our focus is the customer. We will deliver what the customer wants at the right price."

**Alan Cane**

**TELECOMMUNICATIONS** by Alan Cane

# Ringing the changes as competition bites

Singapore Telecoms, which has traditionally dominated the market, has been forced on to the defensive in response to the arrival of a number of new operators

Telecommunications in Singapore has undergone dramatic changes over the past few years and is set for further upheavals. Prices have tumbled and services expanded as MobileOne, a new mobile operator, has challenged Singapore Telecoms' traditional dominance.

The full commercial launch next year of Starhub, a third, facilities-based, operator offering both fixed wire and mobile services, will ensure that the two current rivals cannot rest on their laurels.

However, SingTel, the largest company on the Singapore stock exchange and in which the Singapore government has a 75 per cent stake, retains the monopoly on fixed wire calls until April 1 next year.

The Telecommunications Authority of Singapore, the industry regulator, had originally agreed the monopoly would stay in place until 2007. So rapid have developments been in global telecoms, however, that in 1995, the TAS, concerned about SingTel's competitiveness in world markets, pulled the deadline forward seven years, paying the operator S$1.5bn in compensation.

For the moment, SingTel remains hugely profitable. In 1998 the group turned over S$4.94bn ($2.87bn), with profits before tax of S$2.55bn. Inevitably, however, the threat and the reality of competition has forced it on to the the defensive.

The past few months have witnessed, for example, a spat with the regulator when, in a bout of tit-for-tat price-cutting with MobileOne, it failed to inform the TAS of its intentions as it is required to do, earning it a rap over the knuckles before the new prices were approved.

Superficially, SingTel is the model of a modern operator. The reception area of its headquarters in downtown Singapore is complete with kiosks demonstrating "Magix", a multimedia system offering fast access to the internet, videoconferencing and other services.

But behind the glitzy, futuristic image, SingTel is relying on traditional cost cutting and service improvement to maintain its position.

Brigadier-General Lee Hsien Yang, SingTel's president and chief executive, emphasises the importance of pricing services competitively while continuing to improve and enhance contact with customers. Last year, for example, rate cuts and special offers saved SingTel's customers about S$73m. It has recently announced a S$340m rate reduction package for the current year in anticipation of the launch of Starhub, a joint venture between Singapore Technologies Telemedia, Singapore Power, NTT of Japan and British Telecommunications.

"We are trying to be a complete service provider," says Brig-Gen Lee, pointing to the group's expertise in the most modern communication technologies, including frame relay, asynchronous transfer mode and small aperture satellite transmission. Last year, under the banner "Budget Call", it introduced internet telephony, calling card services and callback.

SingTel has some overseas assets, a 13.5 per cent stake in the Belgian operator, Belgacom, for example, and a 20 per cent stake in American Mobile Satellite Corporation, but Brig-Gen Lee says the group's aim is to be the principal telecoms hub in the region rather than a global operator.

It is, in any case, having to re-evalute its partnership strategy in the light of the collapse of AT&T's World-Partners alliance, of which SingTel was a founding member. MobileOne, meanwhile, has been a "roaring success", according to Willie Cheng, managing partner with Andersen Consulting's Singapore operations. Winning its mobile licence in 1995, it launched its service in 1997 and signed up more than 120,000 subscribers in 80 days. In January, this year, it had signed up more than 200,000 customers, close to half SingTel's total.

Innovative pricing has been key, according to Neil Montefiore, chief executive. Cutting off-peak rates by 50 per cent in January, he noted: "The new rates should accelerate the trend of Singaporeans using their mobile phones instead of their fixed-line phones even when they are at home."

But, as Willie Cheng says, however: "Everybody is waiting with bated breath for StarHub." Terry Clontz, newly appointed chief executive, has the problem of launching the service into a market where prices and service levels have already been sharpened by competition. He is putting his faith in ultra-modern networking technology being developed by Nokia of Finland, and packaged fixed and mobile services.

The group has already made its first commercial move, buying one of the three local internet service providers. Starhub is essentially a Clec, a competitive local exchange carrier. Investment in its network has been set at about S$2.6bn compared with the S$1bn SingTel invests every year, but Mr Clontz expects to have fibre optic cabling to every building within three years. In the meantime, he is negotiating to interconnect with SingTel's network.

No more facilities-based licences will be launched before 2002.

# Braced for a difficult year

Despite an economic slowdown and political bickering, Poland continues to make rapid progress on the road from totalitarian communism to capitalism and integration with the west. **Stefan Wagstyl** and **Christopher Bobinski** report

Poland is braced for a difficult year. The Russian crisis has hit the country harder than expected, its effects compounded by the recession in Germany. At home, economic slowdown has sent a chill through the jobs market – for the first time since the early 1990s there is a perceptible increase in unemployment.

The right-of-centre coalition government is struggling to implement ambitious economic and administrative reforms.

Its approval rates have plunged, particularly for Leszek Balcerowicz, the reform-minded finance minister and architect of Poland's economic success in the 1990s.

Doctors, teachers, and most seriously, farmers, have staged strikes or protest marches.

Voters are irritated by squabbling between Mr Balcerowicz's Freedom Union and its coalition partner, the AWS, the political vehicle of the Solidarity movement, which is itself rent by factional disputes.

The main beneficiary of this in-fighting has been Aleksander Kwasniewski, the left-of-centre president, who has overcome the stigma of his communist past to become one of eastern Europe's most popular politicians.

Yet, despite economic slowdown and political bickering, Poland continues to make rapid progress on the long road from totalitarian communism to capitalism and integration with the west.

Earlier this month it was admitted into Nato. The European Commission says negotiations over Poland's European Union entry are going well. Its economic growth rate this year remains among the highest in central Europe, with the National Bank of Poland, the central bank, forecasting 4-4.5 per cent.

Basil Kavalsky, the World Bank mission chief for Poland, says: "This remains a country with very sound fundamentals."

The year's most significant event is almost certainly Nato entry, which draws a line under decades of Russian domination. Bronislaw Geremek, the foreign minister, has compared its importance with the acceptance of Christianity 1,000 years ago.

Poland, which joins the alliance with the Czech Republic and Hungary, wants Nato to continue looking eastwards and prepare for the entry of other eastern European states. Warsaw argues security can best be enhanced by cementing relations with eastern neighbours, particularly Ukraine.

The achievement of Nato membership leaves Poland free to concentrate on the much more complex task of joining the EU, which Warsaw wants to complete in 2002. Mr Kwasniewski says: "It's a question of preparing our whole economy to meet EU standards."

So far, EU negotiators have queried only relatively minor issues such as Poland's telecommunications regulation.

The trickier subjects have yet to be raised in the entry talks – including labour mobility, land rights in Poland, the environment and agriculture.

The freedom of movement of Polish workers into western Europe is a particularly contentious matter for Germany and Austria, which fear EU entry might stimulate renewed westward migration.

Mr Kwasniewski says the key is rapid economic growth in Poland, creating jobs for those who might be tempted to leave.

Economic growth is also a key to solving the sensitive question of the Polish restrictions on foreign ownership of agricultural land.

Polish nationalists fear EU entry could produce a flood of Germans buying Polish estates, particularly in pre-1945 German territories in the north and west. However, such purchases would become less attractive if further economic growth raises Polish land prices closer to western levels. As with labour mobility, the matter might be covered by transition agreements running for several years after the date of Polish entry. As for the poor condition of the environment in some regions, notably industrialised Silesia, with its filthy factory and household chimneys, there is little dispute between Poland and the EU about what needs to be done, only about how it is to be financed.

But even the environmental question pales in comparison with the challenge of bringing Polish agriculture into the EU. Some 28 per cent of working Poles are employed on the land, but they produce only 6.5 per cent of GDP.

The government and the left-wing opposition agree farming should be rationalised by creating bigger units from the country's 2m farms and finding alternative rural jobs for farmers. But there is no co-ordinated programme for implementing such a change. The EU promises to contribute aid, but the money will be far less than the support given over decades in western Europe.

Moreover, as well as finding money, there is the daunting task of training the rural poor for the modern economy. Fewer young people in villages go into higher education than 10 years ago.

Even those farmers who choose to turn their farms into efficient enterprises operating to EU standards face uncertainty as it seems unlikely that they will have early access to Common Agricultural Policy funds on the same basis as EU farmers. A long transition period is in prospect.

The problems have been thrown into relief this year for pig farmers, who have seen selling prices halved because of the Russian crisis. Last month, they staged protest road blockades.

The protests struck a chord across wide parts of Poland. There is considerable support for the view that the benefits of Poland's economic progress are concentrated among too few people. While the young, the well-trained and the enterprising have a place in Mr Balcerowicz's brave new world, the old, the middle-aged and the uneducated often do not. As well as farmers, these have-nots include people such as miners at the heart of Solidarity.

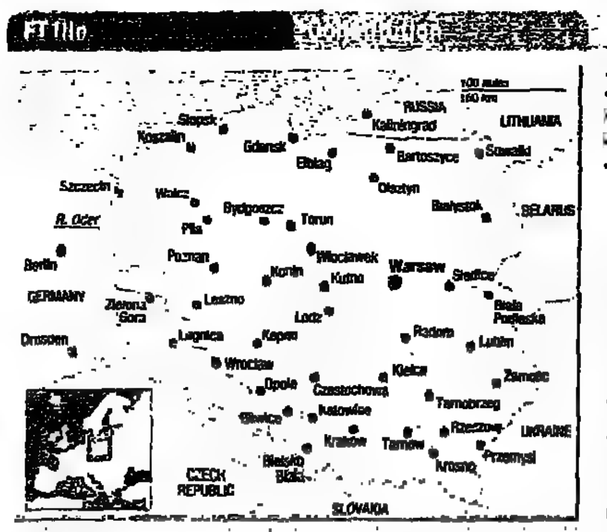
The government has increased support for the stricken pig farmers but is resisting any general increase in public subsidies for agriculture or industry. Ministers remain committed to reducing budget deficits to zero by 2002. Their priority is financing reforms such as this year's changes in pensions, health care, education and regional affairs.

A handful of loss-making state-owned enterprises still have subsidies. But the government's aim is to force such units to stand on their own feet via privatisation. Last year's sales included the stock market flotation of Pekao, the second-biggest bank, and Tpsa, the telecommunications utility. This year's plans include the sales of strategic stakes in Pekao and Tpsa plus the privatisation of PZU, the insurer, and Rafineria Plock, the oil group. Where enterprises are too weak to be privatised they are being cut or closed, as with coal mines.

Ministers support further foreign investment, which has reached an accumulated total of $30bn, including more than $10bn last year, according to Paiz, the government's investment agency. Paiz expects the flow to continue at the same rate, although there are fears that the world economic slowdown could delay projects.

There are sporadic complaints about the extent of foreign capital in the economy, notably about German investment. Right-wing groups try to exploit fears of Germany, which are understandably strong among older people who remember the second world war. But most Poles accept close ties with western Europe inevitably mean close ties with Germany. They hope that Nato and EU membership will bring such a deep sense of security that fears of Germany – and Russia – can be consigned to the past.

## FT file




**Constitution**

- Official name
Republic of Poland
- Form of state
Parliamentary republic
- National legislature
Bicameral: Sejm (lower house) of 460 members; Senate (upper house) of 100 members
- Electoral system
Universal direct suffrage over age 18
- National elections
November 1995 (presidential) and September 1997 (parliamentary); next elections due by November 2000 (presidential) and September 2001 (parliamentary)
- Head of state
President, elected by universal suffrage; currently Aleksander Kwasniewski
- National government
Council of Ministers headed by prime minister, responsible to parliament.

A coalition of Solidarity Electoral Action (AWS) and the Freedom Union (UW) took power on October 20 1997
- Prime minister
Jerzy Buzek (AWS)
- Main political groupings
Solidarity Electoral Action (AWS), a coalition of around 40 smaller parties and pressure groups organised around the Solidarity trade union movement; Democratic Left Alliance (SLD), former communists embracing social democracy; Freedom Union (UW), the centrist successor to the first Solidarity parliamentary grouping; Polish Peasants' party (PSL), a small farmers' party; Democratic Peasants' party (PLD), a more pro-reform offshoot of the PSL; Movement to Rebuild Poland (ROP), promoting nationalism and traditional social values

Source: Economist Intelligence Unit; Datastream/ICV

- Area: 311,904 sq km
- Population: 38.7 million (Dec 1997 estimate)
- Language: Polish
- Currency: Zloty
- Exchange rate: 1998 av $1 = Zloty 3.5754
March 23 1999 $1 = Zloty 3.9525

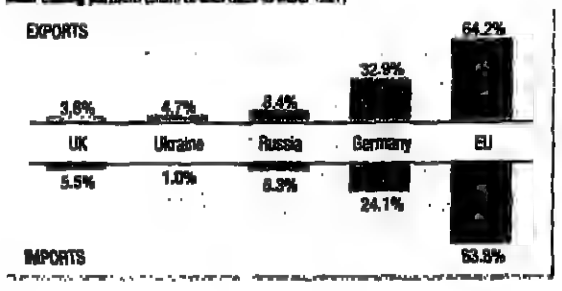
- Main towns and population (end 1996):

| | |
|---|---|
| Warsaw (capital) | 1,629,000 |
| Lodz | 818,000 |
| Krakow | 741,000 |
| Wroclaw | 641,000 |
| Poznan | 581,000 |
| Gdansk | 462,000 |

**Economic summary**

| | 1997 | 1998 |
|---|---|---|
| Total GDP ($billion) | 135.3 | 158.1 |
| Real GDP growth (annual percentage change) | 6.9 | 4.8 |
| GDP per head ($) | 3,500 | 3,880 |
| Inflation (annual percentage change in CPI) | 13.2 | 8.6 |
| Agricultural output (annual percentage change) | 1.0 | 3.5 |
| Industrial production (annual % change) | 11.6 | 4.7 |
| Unemployment rate (percentage of workforce) | 11.5 | 10.0 |
| Money supply, M2 (annual percentage change) | 29.1 | 25.1 |
| Foreign exchange reserves ($billion) | 20.4 | 28.4 |
| Government deficit (percentage of GDP) | -3.3 | -2.7 |
| Total foreign debt (percentage of GDP) | [illegible] | 29.4 |
| Current account balance (percentage of GDP) | -4.2 | [illegible] |
| Merchandise exports ($billion) | 27.2 | 31.0 |
| Merchandise imports ($billion) | 38.5 | 45.0 |
| Trade balance ($billion) | -11.3 | -14.0 |
| Three-month interest rate (%, end period) | 24.4 | 15.9 |
| Discount rate (%, end period) | 24.5 | 18.2 |

Main trading partners (share of total trade to world 1997)

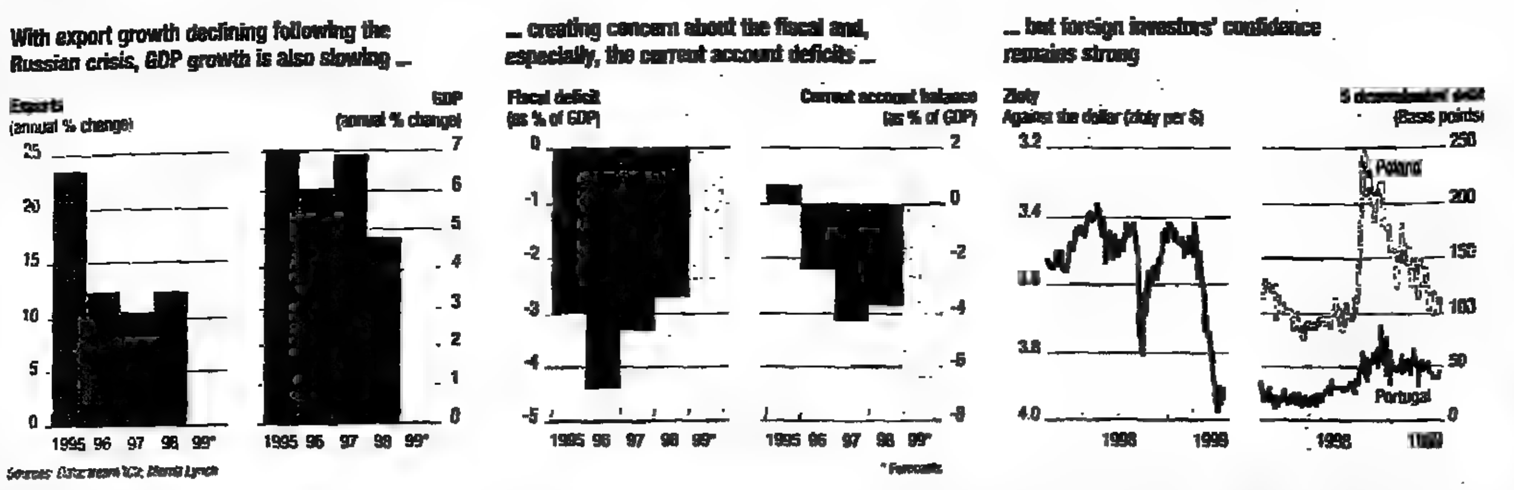



Credit rating: Standard and Poor's BBB- Moody's Baa3 Fitch IBCA BBB+

THE ECONOMY by Stefan Wagstyl

# Slowdown is sinking deep into everyday life

A modest decline has developed into a more serious downturn due to the impact of two external shocks: the Russian crisis and the decline in growth in western Europe




Sources: Datastream/ICV, Merrill Lynch

Daewoo is one of the biggest foreign investors    Maria Zbaska

Wojtek Madalski has clear evidence that the slowdown in the economy is sinking deep into everyday life – a decline in the growth of fruit juice sales.

Mr Madalski, president of Hortex Holding, Poland's biggest juice maker, says: "We can see the rapid growth we experienced in previous years is slowing."

Fiat, the Italian carmaker which is the market leader in Poland, reports a similar story. So does Bank Handlowy, the Warsaw bank.

Across the country, Polish companies are coming to terms with the fact that the deceleration in economic growth which started last year will be steeper than was forecast even three months ago.

A modest slowdown, triggered by efforts by the authorities to cool over-rapid growth in 1996 and 1997, has developed into a more serious downturn due to the impact of two external shocks: the Russian crisis and the decline in growth in western Europe.

The outlook depends mainly on the prospects for export markets, principally in the European Union, although Russia also matters because it bought about 8 per cent of Polish exports before the crisis and up to 30 per cent in some sectors including food processing.

The uncertainty has made some Warsaw politicians and business people nervous, notably Jerzy Kropiwnicki, head of the government's strategic studies centre, who has warned of a risk of recession and urged fellow ministers to prepare an economy-boosting package.

However, the government has ordered Mr Kropiwnicki to hold his tongue. Hanna Gronkiewicz-Walc, the governor of the National Bank of Poland, the central bank, has appeared on national television to declare: "There is no crisis."

The bank has tried to ease the slowdown by accelerating cuts in interest rates, with its key one-month intervention rate coming down from 24 per cent in January 1998, to 13 per cent.

Mrs Gronkiewicz-Walc says the bank must study the effects of these reductions before contemplating further moves. But with inflation falling rapidly from 13.2 per cent in 1997 to 8.6 per cent last year, there could be room for further interest rate cuts.

The national bank forecasts gross domestic product growth for 1999 of 4.5 per cent, down from 4.8 per cent last year. Predictions from private sector economists go as low as 1.5 per cent.

Much depends on the strength of a predicted recovery in the second half of the year, particularly in exports. If EU economies perform worse than expected, so will Poland's.

However, such concern must be put in context. Jan Szomburg, president of the Gdansk Institute for Market Economics, an independent think tank, says: "Poland remains the best performing economy in the post-communist world." Even the most pessimistic forecasts do not envisage falls in output, as have occurred in the Czech Republic.

The biggest short-term worries focus on the current account deficit, which was already substantial last year at 3.7 per cent of GDP and which could grow this year to 6 per cent. "This is at the limits of tolerance," says Miroslaw Gronicki, an economist at CASE, a Warsaw-based think tank.

Fortunately, the flow of foreign investment has been more than sufficient to cover the current account shortfall. Last year's $6.6bn deficit was exceeded by an inflow of $13bn, including $6.3bn in direct investment, according to central bank data. Foreign exchange reserves stand at more than $27bn, substantially more than in other central European states.

Adam Pawlowicz, president of PAIZ, the inward investment agency, says that direct investment in 1999 should equal or exceed last year's, including a growing proportion of reinvestment by companies already established in Poland.

For example, Fiat, which heads the list of foreign investors with accumulated capital of $1.4bn, plans to invest a further $200m. As in 1998, this year's tally should be swelled by privatisation receipts including the sales of strategic stakes in TP SA, the telecommunications utility, and Pekao Bank.

However, Andrzej Olechowski, chairman of the supervisory board at Bank Handlowy, says Poland could be hit by the swing in sentiment against emerging markets among international investors.

As well as damaging the external accounts, a prolonged economic slowdown could have serious domestic effects. First, the government could find it more difficult to cut budget deficits it planned to zero by 2002.

Next, reforms could be harder to finance, including the four implemented this year in health care, pensions, local government and education.

The government is also committed to financing redundancies for miners and contemplating similar aid for steelworkers. Looming on the horizon is the restructuring of agriculture, for which the funds promised by the EU and other external donors will be insufficient. Protests by farmers suffering because of the Russian crisis have already forced ministers to sanction extra support.

So far, dissidents in the ruling coalition have been prepared to support Leszek Balcerowicz, the reform-minded finance minister, because his policies were accompanied by high-speed growth. But powerful elements in the AWS, the Solidarity-linked alliance which rules in tandem with Mr Balcerowicz's Freedom Union, are suspicious of the finance minister's market-oriented policies.

They want more protection for their supporters in heavy industry and agriculture. If the slowdown is prolonged, their demands for money will multiply.

However, the slowdown does have a silver lining. By exposing Polish business to tougher competition it highlights weaknesses in both the public and private sectors.

Already it has helped the government to accelerate modestly the slow-moving privatisation of the steel industry, which fell deep into the red last year following the collapse in world steel prices. In food processing, the drop in exports is forcing rapid consolidation of many smaller companies.

Not all industries are under the same pressure. For example, telecommunications, software and retail financial services are still mushrooming.

But elsewhere there are rapid changes, including mergers and takeovers. Mr Szomburg says: "The crisis can help Polish business to become more competitive."

With the country hoping for EU entry as early as 2003, the impetus for improving efficiency has not come a moment too soon.

POLITICS by Christopher Bobinski

# Tug of war between two giants

Solidarity supporters and their right-wing allies are still locked in combat with the former communists

Aleksander Kwasniewski: avoiding open confrontations    Reuter

Poland's new status as a Nato member and continuing talks on joining the European Union mark a radical break with the past. Nevertheless, the country's politics continue to be defined by allegiances forged before 1989.

Voting trends show that in spite of Poland's changing international status, supporters of the legendary Solidarity union movement allied with smaller right-wing groups in the Solidarity Electoral Action (AWS) look fated to battle – in the medium term at least – with the former communists who have successfully repackaged themselves as the Left Democratic Alliance (SLD).

Indeed, the SLD did so well in breaking with its communist image that it managed to win elections in 1993 and held on to power in an uneasy coalition with the Polish Peasant Party, a farm-based group, for four years.

The AWS only returned to power just under 18 months ago, smarting after the additional defeat two years earlier of President Lech Walesa, Solidarity's historic leader. Then Mr Walesa was forced from the political stage by Aleksander Kwasniewski, the youthful former communist leader who won 52 per cent of the vote in autumn 1995.

Now the AWS, led by the ambitious Marian Krzaklewski, a former academic specialising in computer sciences, governs in coalition with the pro-business Freedom Union (UW). This party is headed by Leszek Balcerowicz, architect of Poland's post-1989 free market reforms. And Mr Krzaklewski, who has remained at the head of the Solidarity trade union but stayed out of the administration, remains determined to follow the victory through by defeating President Kwasniewski next year.

This will not be easy. The AWS came to power with a programme of reforms which include decentralisation of government as well as radical changes in the pensions, health and education systems. The first three have already been set in train and the reorganisation of the education system looms in the autumn. The reforms were certainly necessary but their implementation has generated confusion and a consequent slump in the government's popularity.

At the same time, a slowdown in the economy and a rise in unemployment from 9 per cent at the end of last year to nearly 11 per cent have exacted their toll. Opinion polls in February and March have shown the SLD pulling ahead of the AWS. Some surveys have given the former communists a lead of 35 percentage points compared to AWS's 26 per cent.

Jerzy Buzek, prime minister, a professor of chemical engineering and veteran Solidarity supporter, has reacted with a promise of a reshuffle combined with an attempt to streamline the central government administration. This is unlikely to help much. Rather Mr Krzaklewski who is determined to stand and run for the presidency is hoping that the memory of the early days of the reforms have receded by autumn next year when he will have to ask people for their votes.

He will be standing against Mr Kwasniewski who ousted Mr Walesa by keeping the support of his former communists and winning the moderate voters who do not agree with Solidarity's anti-communist rhetoric and its traditional views on abortion or giving the church a significant role to play in the state.

Mr Kwasniewski has in the past three years managed to retain the middle ground by avoiding open confrontations with the present government and judiciously using his powers of veto on legislation. As a result, he remains far ahead of Mr Krzaklewski in the opinion polls.

Meanwhile, despite constant tensions both between the Freedom Union and the AWS and inside the fissiparous Solidarity right-wing bloc, the governing coalition looks set to stay together until parliamentary elections in 2001. The memory of 1993, when splits in the Solidarity movement opened the way to a victory at the polls for the former communist SLD is still vivid.

Significantly, key votes such as approval for the budget or a recent vote of no confidence in Mr Balcerowicz, the finance minister, show the coalition at their disciplined best. Squabbles erupt when the issues are of secondary importance or there is no danger of the government collapsing.

The continuing tug of war between the two giants leaves little room for other parties. Only the Freedom Union, with its free market ideas and liberal philosophy can expect to grow as the middle class in Poland develops. For the moment, though, the party oscillates with 12-15 per cent support and can only hope for junior member status in this and future coalitions.

The Polish Peasant Party (PSL) is the other small party vying for the number three spot in the political spectrum. The party is firmly rooted in the countryside where its farm supporters are fated to shrink as a social group.

The social tensions this process is already engendering will favour the PSL or more extreme groups such as Samoobrona led by Andrzej Lepper, a populist who has been organising big demonstrations and road blocks to demand higher farm prices. But unless the PSL manages to build a constituency in the towns or merge with an urban movement it seems fated to decline.

**DEFENCE** by Christopher Bobinski

# Turning point as the country looks west

## To Warsaw's relief, relations with Russia do not appear to have suffered as a result

Poland's entry into Nato marks a crucial turning point in the country's fortunes which Bronislaw Geremek, the foreign minister, recently compared with the acceptance of Christianity just over 1,000 years ago.

Mr Geremek's comparison has raised eyebrows, but it was not religion which the bearded, pipe-smoking former historian and veteran anti-communist dissident had in mind. Rather, as Mr Geremek would explain, Poland – now as then – has at a stroke been locked firmly into the western world.

Poland has also gained the promise of security which has eluded the country for the past 200 troubled and often tragic years.

It is a situation which few thought possible just over a decade ago. Robert Mroziewicz, the deputy defence minister, accompanied Mr Geremek on his trip to Independence, Missouri, to hand over Poland's ratification papers and formally join the western alliance.

During the ceremonies Mr Mroziewicz remembered the day in 1985 when he was released from prison under an amnesty for Solidarity detainees. "We met to discuss what we would do next," he says. "Of course, we were determined to continue our opposition to the communists.

"Then we thought that the best we could ever possibly hope for would be to win some kind of neutral status for Poland towards the end of the first decade of the next century."

Now, as Poland enters Nato along with Hungary and the Czech Republic, the Polish government is keenly aware that it faces the challenge of bringing its armed forces up to western standards.

The success with which this is done will affect Warsaw's other aim, which is to keep the door to Nato open for its neighbours to the east. If there are problems with adapting Poland to Nato there will be opposition in the west to further expansion.

This would include Lithuania and Slovakia in the first instance. But Poland would be happy to see Estonia and Latvia as well as Slovenia in the alliance and wants Ukraine's association with Nato upgraded.

Also, to Warsaw's relief, relations with Russia appear not to have suffered, says Mr Mroziewicz.

"The best proof of this is that Yevgeny Primakov, the Russian prime minister, is coming to Poland in April just after we come back from the Nato summit in Washington," he says.

Polish Air Force pilots with one of eight Mig 29 fighter aircraft equipped with navigation systems in line with Nato requirements AP

The training and equipment upgrading tasks which Poland has been set by Nato are embedded in a 15-year modernisation programme for the armed forces which now number 240,000. This figure will be cut back to 180,000 by 2003 and Stanislaw Koziej, a general in charge of defence planning at the defence ministry, says that budgetary constraints may mean the number being further reduced to 150,000. This could generate discontent in the armed forces.

Sitting in his office surrounded by dictionaries in a visible sign of the effort senior officers are making to learn English, General Koziej says:

"Our army still thinks in terms of high manpower as a sign of military strength. We are only slowly coming around to the idea of quality rather than quantity."

The general also worries about pay and retirement conditions for the army. "As part of Nato, Poland's forces will be highly qualified," he says.

"But if we want to get good people we have to pay more." He hints that there are already problems with morale as able young people leave the military for better-paid civilian professions.

For the moment, Poland has installed communications equipment needed to bring the country's skies into the Nato system and equipped two squadrons of Mig 29 and Su 22 fighters with the technology to enable them to fly in Nato airspace.

At the same time several army units have been brought up to standards enabling them to be used in Nato operations abroad such as the one mooted for Kosovo.

Poland is also bound to prepare seaport and aircraft facilities needed to allow the transport and supply of the two Nato divisions promised as support if the country's borders were threatened.

The costs here are not excessive. Poland will be spending about 10 per cent of its defence budget, which runs to the equivalent of 2.1 per cent of GDP this year, on Nato-related projects.

Nato will also be making a contribution, Mr Mroziewicz says.

He adds that Nato planners are not pushing Poland to increase defence spending and thereby stretch the economy's still slender resources.

"They recognise that the economy must be allowed to grow in stable political conditions," he says. "This is also a security aspect."

Nevertheless, new equipment will have to be purchased, beginning with a multi-million-dollar order for new fighter aircraft.

The government is presently working on the criteria for the tender. These are expected to include commitments by the suppliers not only to place orders with Poland's moribund defence industry under "offset" agreements but also to participate in its privatisation.

Preliminary offers made by Boeing, Lockheed Martin and British Aerospace offering Sweden's Grippen aircraft are considered to be the most attractive and Romuald Szeremetiew, the deputy defence minister, hopes decisions will be taken by the end of this year.

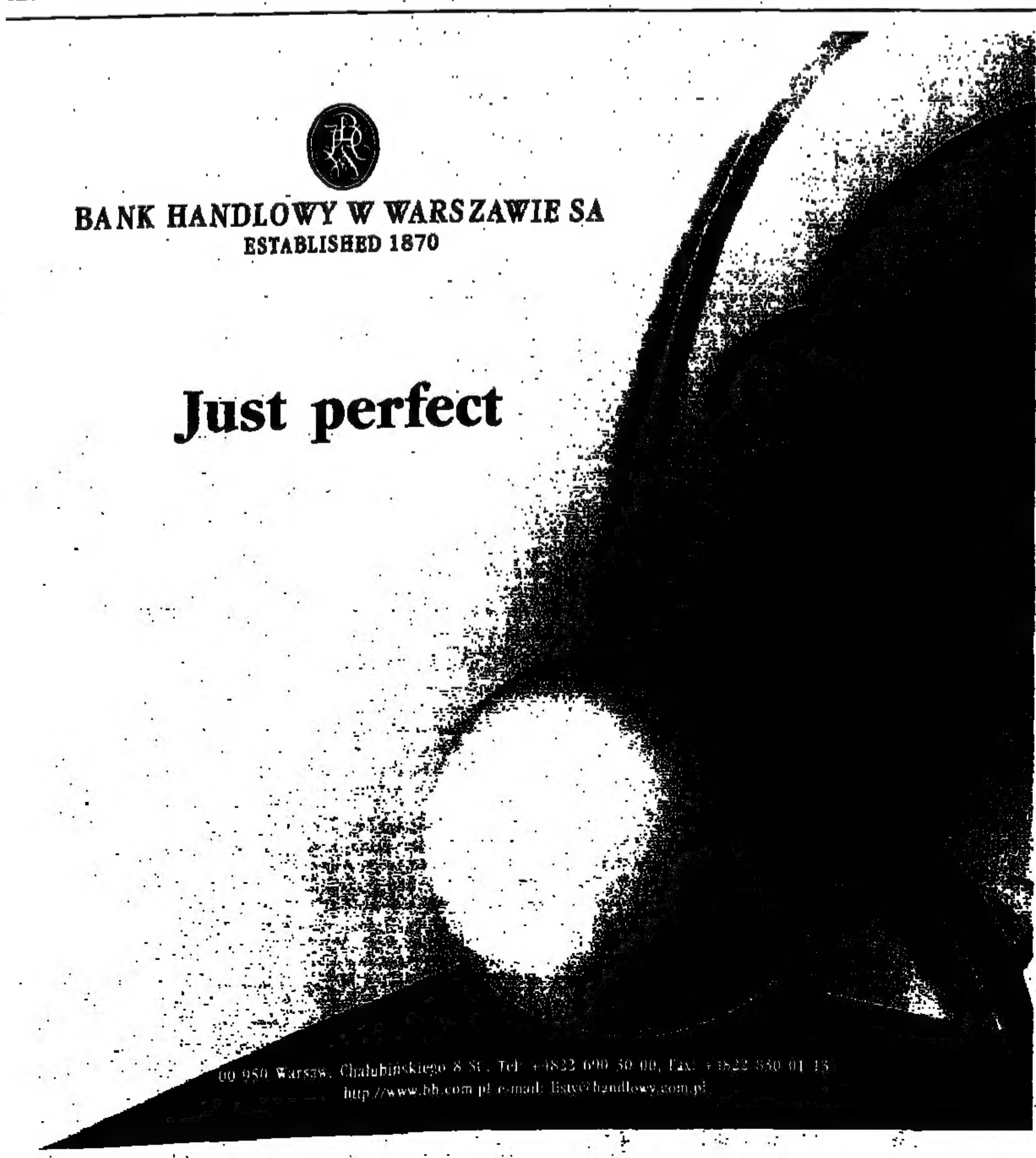
Other defence equipment programmes include rockets and avionics for a fighter helicopter, armoured troop carriers, mounted cannon and new ships for the navy.

The offset agreements, the Poles hope, will bring new technology and orders to the defence industry with plants in places such as Mielec and Swidnik in eastern Poland. Here unemployment is high and closures would mark a political problem for the Solidarity-led coalition government.

Whatever the cost of Nato membership, Mr Mroziewicz says the cost of equipping Poland with forces sufficient to defend the country alone would be prohibitive.

As it is, Poland has gained membership of an alliance which provides more than just security.

It will also over the next few years turn the military and defence industry into one of the country's modernising forces as western technology and logistics are ruthlessly implemented to meet Nato standards.

**REGIONAL REFORM** by Stefan Wagstyl

# New system of local government

## The fresh set-up will help to prepare for entry into the EU, which emphasises regional self-government

Poland's signpost painters have never had it so good. Since January 1 they have been busy helping to bring *into existence a new system* of local government.

A Communist-era network of 49 centrally administered regions has been replaced by 16 *self-governing authorities*, sub-divided into 308 districts and 2,489 community councils.

The community council, or *gmina*, was restored in 1990 in one of the first acts of the post-Communist government. But it was only last year that a long debate was finally concluded over the powers of the district (*powiat*), and region (*voivodship*).

The new structure is important historically because it recreates Poland's pre-1939 local government structure. It is significant for the future because it will help to prepare the country for entry into the European Union, which places a big emphasis on regional self-government.

*The changes affect* business, including foreign investors, because *voivodships* have been made responsible for regional economic development.

The key individual in each *voivodship* will no longer be the government-appointed *voivod* but the locally-elected leader of the council. Jan Zarebski, leader of the Pomorze *voivodship* with its capital in Gdansk, says: "We are now responsible for our own future."

Implementation of the reform followed a furious political debate last year over the boundaries of the new *voivodships*. The government originally wanted 12 regions but opposition from the capitals of the old *authorities forced the number* up to 16.

But there was never much argument about the need for change. Michal Kulesza, who piloted the reform through parliament as secretary of state for regional reform, says the key purposes are to "decentralise power, create local identity, prepare for the EU and promote economic development".

Residents in the town of Brzeziny, central Poland, block the main road between Warsaw and Lodz on the outskirts of their town in protest against a government decision that omitted Brzeziny from the list of newly introduced authorities AP

One important effect is to link cities with their hinterlands, some of which are very poor even in the case of wealthy cities such as Poznan, Poland's second wealthiest city after Warsaw.

As well as Poznan, the *new* Wielkopolska region includes villages where economic life has virtually been destroyed by the collapse of state farms.

*Voivodships* plan to take their economic development roles seriously, not least because it is only by developing viable projects locally that they will secure access to the growing flow of EU funds into Poland.

The total amount is expected to more than double from next year, rising from *about €200m a year to more* than €500m. The European Commission will turn down poorly prepared schemes, as it did in Poland last year.

*Voivodship* council leaders are planning fact-finding visits to Brussels. Some will establish permanent offices, sometimes with the help of towns and regions within the EU with which they have links. Such ties are more than symbolic. For example, the prosperous industrial city of Poznan has provided office facilities which the North Brabant chamber of commerce can use as a base from which to advise potential Dutch investors.

As well as regional development, *voivodships* are responsible for region-wide services including higher education, specialised medical services, ambulances, culture and road networks.

Below *voivodships*, districts with an average of 80,000 people are responsible for local services including secondary schools and most hospitals. Beneath the districts, the community councils will continue to run primary schools and health centres and local infrastructure. They will also produce local development plans, including those for land use, which are of crucial importance to would-be investors.

Unlike *voivodships* and districts, which are responsible only for the tasks they are assigned, community councils can tackle any local issues as long as they have the financial resources.

Under the reform, the proportion of public money administered locally has increased from about 15 to 40 per cent. But this exaggerates the amount of local discretion, since the great bulk will be spent on essential services such as schools, where levels of provision are set nationally.

At community council level, local authority incomes vary greatly because communities keep 27 per cent of personal income tax collected locally and 5 per cent of corporate taxes. But at district and *voivodship* level, these figures fall to less than 1.5 per cent.

Local government leaders complain that they have been given too little money to finance services and too little financial freedom. The government curbed earlier plans for greater financial decentralisation, fearing for the impact on the overall public budget. However, authorities have some discretion to borrow, giving banks hopes of developing an important new market.

Mr Kulesza says units of local government can issue bonds and financial paper, though within limits. "The big financial institutions are going into this market to develop it," he adds.

Mr Zarembski, in Gdansk, says financial freedom will grow in time. "It is hard for any government to surrender control over money," he says.

But he says the present *uncertainty surrounding* the new authorities should be resolved in the future, as happened with the community councils in the early 1990s.

"In Poland it often happens that something starts with confusion but turns out later to be a success," he says.

Rolf Timans, head of the EU delegation in Warsaw, also has high hopes for the reforms. He says he was very impressed with the way *community councils in the* region affected by the 1997 floods distributed EU reconstruction aid.

"Sixty per cent of the projects were completed in 15 months," he says. "That was very good. The experience will serve them well in the future."



REGIONAL PROFILE
**POMORZE**

# Gulf between town and country is particularly acute

The thriving port city of Gdansk, full of quaint old corners, ugly modern buildings and foreign business people, seems light years away from the *bankrupt state farms around* Slupsk, 150km to the west.

Yet the new Pomorze *voivodship* (region) covers both. The success of the government's new regional policy will rest on whether the new *voivodships* can *help close the gap between* the big cities which have seen the bulk of the benefits of the reforms of the 1990s and the villages and small towns where living standards have often fallen.

In villages around Slupsk *the average unemployment* rate is above 20 per cent, compared with 2 per cent in the thriving three-city conurbation which includes Gdynia and Sopot as well as Gdansk.

In the cities, young people *are pouring into courses in* computing, management, finance and foreign languages. As elsewhere, a common goal is to work for a multinational. In the villages, fewer youngsters start higher education of any *kind today than 10 years* ago.

The urban-rural divide runs throughout Poland. It is particularly acute in the *north, including Pomorze*, because the region has the highest proportion of state farms, created after 1945 when the German landowners who dominated the region before the second world war, fled or were expelled.

With many state farms bankrupt, the villagers have been left jobless. Far fewer farmers have their own plots, unlike their counterparts in other poor rural regions, notably in the east.

While the solutions to these problems lie with national economic policymakers, the new *voivodships* have been given the job of trying to spread *prosperity. "We must try to* do our best with the resources that we have," says Jan Zarebski, the elected leader of the *voivodship* council.

The *voivodship's* plans involve stimulating further growth in Gdansk, Sopot and Gdynia and their *hinterlands, promoting* non-farm jobs in the countryside and improving roads and other communication links.

The authorities plan to co-operate with the European Commission to ensure the region has access to European Union enlargement-related development funds.

Tomasz Sowinski, whose job is to co-ordinate the local council's activities with government policy, says *foreign investors are also* welcome.

Foreign investment today, as with domestic business activity, is heavily concentrated around Gdansk and includes retailers such as Metro from *Germany and Auchan from* France.

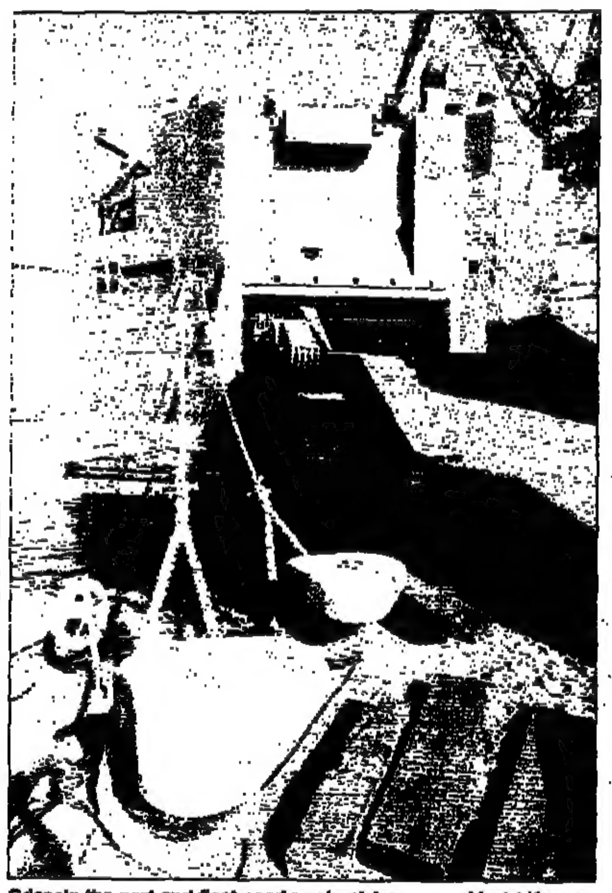
Coca-Cola of the US has a $30m bottling plant in Gdynia and Federal Mogul, also of the US, has invested $20m in a plant manufacturing bearings.

*New home-grown* businesses include Procomm, one of Poland's largest software companies, plus a host of enterprises in *food processing, tourism* and trade.

But the Gdansk area is dominated by the activities of the ports of Gdansk and Gdynia and their shipyards. The ports themselves and the fleets are still state-owned and in need of rationalisation and modernisation.

However, there is progress in shipbuilding where the bankrupt Gdansk yards, the birthplace of the Solidarity movement, were sold late last year to Stocznia Gdynia, the privatised Gdynia yard.

Janusz Szlanta, the Stocznia Gdynia chairman who helped to save the yard from financial collapse five years ago, now hopes to do the same for Gdansk. *In the* process, the company will redevelop part of the Gdansk yard, which lies in



Gdansk: the port and fleet need modernising Maciej Kosycarz

the centre of the city, as a commercial and office centre.

At the *voivodship* offices, *Mr Zarebski says: "It is an* excellent project."

Outside the Gdansk-Sopot-Gdynia conglomeration, which has about 700,000 of the *voivodship's* 2.1m residents, industrial development is *patchy. At Kwidzyn in the* south, International Paper of the US has invested $320m in acquiring and modernising a state-owned paper mill.

There are smaller investments in food *processing*, furniture and *clothing companies*, many of which have suffered sales losses because of the recent Russian crisis.

Mr Sowinski sets great *store by developing the* region's tourism. Traditional attractions include Gdansk's old town, carefully rebuilt following destruction in the *second world war, and* Malbork, one of Europe's largest medieval castles and former seat of the Teutonic knights.

Poles, and increasingly Germans, flock in summer to the beaches of Sopot and other resorts, encouraged by efforts to clean up the Baltic Sea.

The authorities hope to promote more rural tourism by encouraging villagers to develop guest houses and small hotels. The region's specific attractions include some of Europe's largest *sand dunes in the northwest* of the *voivodship* as well as Kartuzy, a pocket of hills and lakes where traditional Kaszubian culture survives.

*The Kaszubian language*, once widespread in the region, is still spoken in this picturesque enclave.

However, the region also needs to see progress on bigger developments, particularly in transport. Before the second world war, links with Poland were limited because much of the *region lay in German East* Prussia.

After 1945, the authorities concentrated on developing the industrial heartlands of Silesia. Later, says Mr Zarebski, Gdansk was punished by the Communist authorities who withheld funds because of the city's role in worker unrest in 1970, when there were strikes in the shipyards, and in the 1980s.

The region lacks good road links with Warsaw and the rest of the country. Mr Zarebski says the proposed *construction* of the international A1 motorway which would link the Baltic states to the Mediterranean is a priority for the region *because it would run near* Gdansk and help to link it with the rest of Poland.

However, financing plans are less advanced for the A1 *than for the A2* motorway which is to cross Poland from east to west, linking western and eastern Europe.

"For the EU, that is more important," says Mr Zarebski ruefully. "But for Poland, the north-south connection should have a higher priority."

Stefan Wagstyl

**BANKING AND FINANCE** by Stefan Wagstyl

# Pressures may accelerate mergers and takeovers

## A vast new market is opening in retail financial services, requiring new skills and heavy investment

Polish banks are having to do everything at once, and not every group will cope with the challenge.

On one hand, banks are facing a squeeze in their core corporate business where profits have been hit by a combination of falling interest rates, rising costs, slowing economic growth and the Russian crisis.

On the other, a vast new market is opening in retail financial services, requiring rapid development of new skills and heavy capital investment.

At the same time, continuing privatisation is creating new threats and opportunities. The government is due soon to announce a strategic partner for Pekao, the biggest bank privatised so far.

Bankers say the pressures will accelerate mergers and takeovers. Hanna Gronkiewicz-Walc, governor of the National Bank of Poland, the central bank, says: "We have 80 banks. Further consolidation will take place. But it will be determined by market forces and not by the authorities." Cezary Stypulkowski, chief executive of Bank Handlowy, Poland's third-largest, says: "Given the pressures bankers face, we expect rapid consolidation."

Declining profits will concentrate minds. The Polish Banks Association estimates that while bank assets grew last year by about 27 per cent, reflecting the spread of financial intermediation in an under-banked economy, the industry's net profits fell 35 per cent.

Losses suffered in Russia were only the most visible element in a difficult year when interest rates fell by more than 10 percentage points. With the economy still slowing and some borrowers running into financial difficulties, the outlook for corporate banking for 1999 seems uncertain.

Krzysztof Pietraszkiewicz, the bank association director, says: "It will be a difficult year for Polish banks."

Wojciech Ksen, chief executive of Wielkopolski Bank Kredytowy, in which Allied Irish Banks has 61 per cent, says: "Many companies are talking about the slowdown – the brewing companies, the car dealers. It is very obvious."

The banks claim that their competitive position is particularly difficult because Polish regulatory requirements are tougher than those in western Europe, notably for compulsory reserves they must deposit at the central bank. They hope the central bank will ease the rules this year.

Meanwhile, many banks are concentrating their efforts on retail expansion. The number of credit and charge cards in issue has soared past the million mark. The number of automatic teller machines (ATMs) is set to double from 2,000 at the end of 1998 to 4,000 in 2001.

Given the high cost of opening new branches, banks are concentrating on the alternatives of advanced technology and acquisition.

For example, Bank Handlowy, which has previously specialised in corporate business, is investing in a network of mini-branches with ATMs as a way of leapfrogging institutions with bigger branch networks. Mr Stypulkowski says: "We plan to be a universal bank."

Bank Handlowy had hoped to make the acquisition of control of Pekao the key to its retail plans. It argued that the merger would have created a locally owned giant big enough to compete with foreign-controlled institutions and expand overseas.

But the government has narrowed the field to two foreign bidders, Citicorp of the US and Italy's UniCredito Italiano in combination with Allianz, the German insurer.

Other foreign banks expanding retail networks in Poland include Bayerische Hypo-Vereinsbank, Germany's second-largest, which last October paid 2.1bn zloty for 37 per cent of Krakow-based Bank Przemyslowo Handlowy, Poland's fourth-largest institution.

Polish banks are also growing by acquisition, notably Big Bank, a private bank started in 1989, which has merged with Bank Gdanski, a regional institution. It is now the fifth-largest in terms of capital.

Aside from Pekao, the government has still to play three important bank privatisation cards – the sale of Bank Zachodni, a regional bank in Wroclaw, due later this year, and of PKO BP, the largest bank in terms of deposits, and Bank Gospodarki Zywnosciowej, the farmers' bank, both expected next year.

PKO BP's privatisation is particularly important because under communism it was the main retail bank. It still boasts nearly 40 per cent of all deposits.

But with more than 1,000 outlets, 40,000 staff and a loan book burdened with bad housing loans dating back before 1990, PKO BP requires rationalisation before it can be offered to investors.

The plans for further privatisation will also help to develop the Warsaw stock exchange, which needs more new large issues to expand trading volumes. While the exchange maintains its reputation as one of the most transparent in eastern Europe, members want to expand their business.

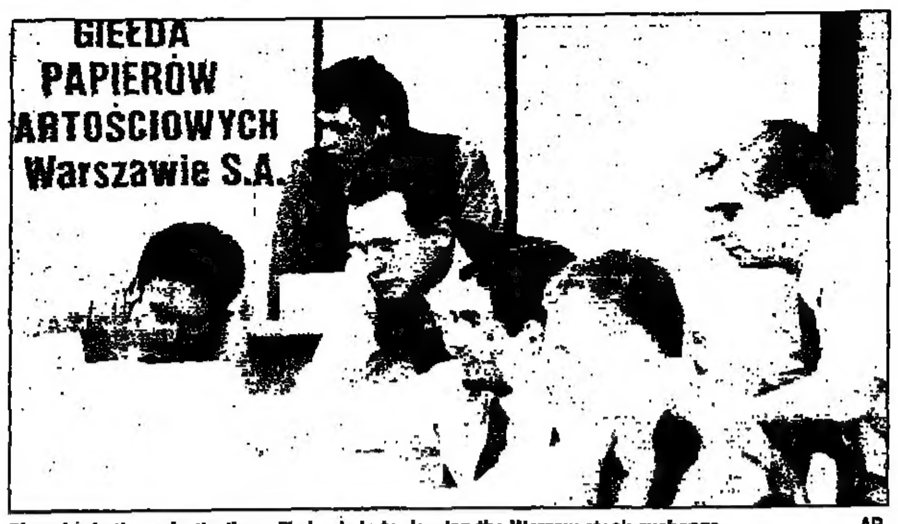
The market was boosted last year by 57 flotations which took the total to 201 and which included the two largest companies by capitalisation, Pekao and TP SA, the telecoms utility.

However, with the government retaining majority holdings in each company in order to sell strategic stakes to industrial investors, the free float in each company is much less than the overall market value, just 15 per cent for TP SA.

The same is true for other privatisation issues, notably banks, where controlling stakes have often been acquired by foreign institutions. Such companies may in time leave the exchange altogether, as happened last year with Wedel, the leading Polish chocolate company which was delisted when its controlling shareholder, Pepsico of the US, bought out minority shareholders then split the business and sold it to Cadbury Schweppes, the British confectioner, and UB, the biscuit maker.

Future privatisation issues will replace the companies which have departed. Wieslaw Rozlucki, the stock exchange chief executive, says that he hopes this year to see the flotation of Plock Refinery, the biggest petrochemicals group, Lot, the airline, PZU, the dominant insurer, and one of two electricity companies.

However, the flow of smaller privately owned companies is likely to be smaller. Mr Rozlucki expects about 30 issues altogether. He says: "Investors have become much more cautious."




Plans for further privatisation will also help to develop the Warsaw stock exchange AP

**HEALTH SERVICE REFORM** by Christopher Bobinski

# Progress – despite the criticism

## Problems still need to be resolved such as the complex network of vested interests in the health service and badly-run hospitals which are beginning to lose income

Poland's controversial health service reform which started at the beginning of the year has already cost Wojciech Maksymowicz, the health minister, his job. He was replaced at the end of last week by the energetic Franciszka Cegielska who has made her mark as the mayor of Gdynia, the Baltic port where she was an enthusiastic supporter of decentralising local government reforms.

Despite his dismissal, Mr Maksymowicz can be proud of presiding over the start of one of the most far-reaching changes in the country's welfare system since the fall of the communist system in 1989.

Indeed, opinion polls demonstrate that people have already grasped the principles of the change to a choice-based system of health care.

"Despite all the carping, most people have managed to register with a general practitioner in time," he says. "And many can reel off the illnesses which they can be treated for directly by a specialist - which is more than I can."

The reform is one of the four fundamental systemic changes the present government has decided to introduce within 12 months. Along with health, the government has been reforming pensions and decentralising local government. A reorganisation of the education system is due to start in the autumn.

The inevitable confusion that the changes have engendered has contributed to a slump in the government's popularity. Critics such as Marek Balicki, a former deputy health minister, say that the reform was ill-prepared and poorly implemented. This sort of criticism contributed to the fall of Mr Maksymowicz, who was a neuro-surgeon and Solidarity supporter.

In essence, the reform allows people to register with general practitioners of their choice. The doctors then prescribe further treatment in hospitals or clinics in the case of serious ailments. Here again the patients can choose where they want to be treated. Previously, the health care system was district-based, limiting people, in principle, to treatment in the area where they live.

But at the same time the doctors are to act as "gatekeepers", reducing the flow to specialists and hospitals of patients with minor ailments who used, as a matter of course, to head for what they thought would be the best treatment.

Mr Maksymowicz also says there were old people taking up space in hospitals with expensive facilities who were there because there was no one to look after them at home. "They should be in care centres which we will develop as the reform takes hold and frees up resources".

The funding arrangements have also been changed. Starting on January 1, a sum equivalent to 7.5 per cent of gross wages is taken out of people's incomes tax payments and passed on to new institutions called "Patients' Funds". These are located in each of the 16 new provinces, with one additional fund for the military and police.

The funds then pay for the medical services dispensed by doctors and health establishments, be they privately or publicly owned. The total amount flowing into the health care system from this source this year will be 21.5bn zlotys which is to be augmented by a 4.3bn zlotys budgetary grant. This gives a 14 per cent nominal increase on last year's health budget.

The sum is still deemed inadequate by doctors and nursing staff unions who are demanding that up to 11 per cent of gross wages should be devoted to health care.

The reform follows a month-long campaign by doctors and nurses for higher wages and these demands, backed by strikes, go-slows and demonstrations, continued as Mr Maksymowicz struggled to implement the institutional changes. He was also the object of sniping from the Freedom Union (UW), the junior partner in the Solidarity-led coalition government.

The UW has long maintained that the establishment of separate Patients Funds has been wasteful and that the health system should be administered by local government administration.

However, the most difficult part of the reform now faces Ms Cegielska, his successor. The changes promise to unravel a complex network of vested interests in the health service. These include specialists who were quite happy to have a flow of patients who did not really need their services, because they could rely on each of them to hand over a gratification in kind or cash which supplemented their admittedly low official incomes. The specialists' total incomes will suffer as a result and the number of specialists may have to be cut.

Also, badly-run hospitals with local reputations for poor health care are beginning to lose money because patients have started choosing the competition. And as the prospect of bankruptcy stares them in the face, these hospitals are beginning to lobby for extra funds to stay in business.

In addition, thousands of ambulance drivers which the hospitals are finding they can not afford - and don't actually need - are beginning to press the government to save their jobs.

The reform introduces the principle of choice into the system. But it still leaves the onus of responsibility for cutting waste with the Patients Funds which retain a monopoly role in negotiations on fees with the providers of health care. Indeed, all Poles are bound to join the Funds if they want to participate in the system.

Mr Balicki argues that another weakness of the reform is that it fails to clearly outline the basic contours of the health system once the present programme of changes has been completed.

A nurse in a black T-shirt attends a patient in a Warsaw hospital where doctors and nurses handled only emergency cases in January during a two-hour strike in support of pay increases AP





**PENSIONS REFORM** by Christopher Bobinski

# Fund managers jostle for position

## Changes should increase the rate of savings in the economy and provide funds for investment

The talk this spring seems to be of little else but pensions as Poland's reform moves into top gear with private fund managers spending small fortunes on radio, TV and outdoor advertising to capture clients they hope to keep for life.

One recent Sunday, people out for a morning stroll in Warsaw's castle square found Winterthur, the Swiss insurer, camped out under a bright yellow tent, its sales people happy to hand out leaflets to the accompaniment of loud pop music.

Meanwhile, Bank Handlowy and the giant PKO BP savings bank, who form another fund, held an open weekend hoping to lure clients to their scheme.

The commotion is part of a far-reaching systemic change which should increase the rate of savings in the economy and provide much-needed funds for investment.

It will at the same time ease the burden of pension payments on employers and markedly reduce the role of the state in the economy.

Under the new plan, modelled on schemes pioneered in Chile in the late 1970s and developed throughout Latin America as well as in Asian emerging markets such as Malaysia, a share of Poles' national insurance contributions will from now on be handed to private funds for investment.

The capital minus the funds' fee, which oscillates at around a monthly 9 per cent, will be returned to the clients together with the investment growth when they decide to retire.

The plan retains an element of the old system under which present contributors fund the pensions of those who have retired. This will also guarantee a small state old-age pension in future.

The under-30s have no choice but to participate in the scheme. They will from now on see one-fifth of the old pension contribution, amounting to 45 per cent of the total wage bill, go to the private but state-supervised investment fund of their choice.

The scheme is optional for those aged between 30 and 50 and closed to the over-50s.

As many as 23 fund managers have been established and big names such as Nationale Nederlanden of the Netherlands, Commercial Union of the UK and Citibank are involved. Already 16 of the groups have state operating licences.

According to conservative estimates between 6m and 8m of Poland's present 12m labour force will be involved in the scheme and most funds are targeting a market share of 10 per cent in their business plans.

This should start to give returns after five or six years at the level of fees the groups have been forced to quote as a result of fierce competition for clients.

And that suggests that about 10 funds will survive after this year's melee when those Poles who have to, or want to, participate in the scheme, choose their fund.

The funds will be able to invest 5 per cent of their assets abroad. Also under Polish rules, two-fifths will be invested in equities while the remainder is invested in government and private bonds.

Stanislaw Berkieta, of Citibank, which is partnering the Warta insurance company in the DOM fund, thinks the flow of the pension related funds will only begin to be felt next year by the Warsaw bourse.

Before that happens there are severe teething troubles.

The state-run Zaklad Ubezpieczen Spolecznych, through which the contributions have to be channelled, has yet to come up with procedures and a computer system for logging the clients the various funds have managed to acquire.

Only when that happens will the funds begin to get their share of contributions from the system to manage.

By all accounts it could take until the end of the summer holidays before the money begins to flow back to the funds. Until then, they will have to survive on their own capital.

The fact that a share of the old pension payments flow will from now on be invested and not paid out to existing pensioners but to the new fund managers will produce a hole in the budget.

This is to be filled from privatisation revenues coming from the sale of banks such as Pekao SA and the country's refineries.

Now that the reform is under way, the finance ministry responsible for the budget will all the more urgently demand that disposals are speeded. Drafting errors in the pension legislation produced a month-long gap in the contributions flow earlier this year.

This meant that the government ran up almost half of its annual deficit by the end of February. Pressure will mount all the more on the Treasury to accelerate its sales programme.

**FOREIGN PROPERTY INVESTMENT** by Christopher Bobinski

# Prime sites at a premium as foreigners move in

As office rents come down in Warsaw, the price of land in some rural areas is 'going through the roof'

Poland's retail sector is attracting feverish attention from property consultants as French and German hypermarket chains scramble for prime sites in the main Polish cities.

This is in contrast to several years ago when Warsaw office rental prices were at London and Paris levels and office developments were all the rage.

Now rents are slowly but surely coming down, making the market less attractive, in the short term at least, for investors.

In the retail sector, Sean Briggs, of Healey and Baker's Warsaw office, reels off the names of the chains bringing hypermarkets first into the main centres and now into cities of more than 200,000 inhabitants.

These include Auchan, Carrefour, Geant from France, Real from Germany, Tesco from Britain and Ahold from the Netherlands.

"It is unbelievably competitive," he says, citing the problems encountered in putting together a site big enough for a project.

"With Poland's fragmented farming system, you have to buy plots from lots of owners and getting sites near the edge of towns is still difficult," he says.

"Also, land prices have gone through the roof. It is quite crazy."

The sheer cost of land is holding back another development, Mr Briggs says. This is out-of-town retail warehousing, where "the companies are looking but land is too expensive for projects to be viable".

Even as retail projects are reaching further and further out into the Polish provinces so are distribution centres.

AIG-Lincoln, an alliance between a US property developer and a US insurance company, has decided that Lodz, Poland's largest city with a strong industrial tradition, is a key location and is building the Diamond Business Park, a $20m industrial warehousing project, there.

"We saw that Lodz is in the centre of the country at the crossroads of two planned north-south and east-west highways," says Brian Patterson, of AIG-Lincoln.

"We finish our 10,000 sq m industrial park at the end of April and interest from potential renters is high."

Manufacturers are attracted by the supply of low-cost qualified labour which is available because the textile industry which was once the source of Lodz's wealth is now running down.

"Also, floor space in the park is considerably cheaper than in Warsaw, where you simply cannot find people to man machines," Mr Patterson adds.

**Daewoo's Warsaw Towers is scheduled to come on to the market this year**

Rhys Jones, at DTZ, is meanwhile quietly confident about the future of office developments, in Warsaw at least.

DTZ's research shows that top quality new buildings in the city centre were commanding rents between $40 and $45 in 1997 and these have fallen to between $32 and $38 this year. Mr Jones expects this price to hold next year as well.

"You see a two-tier system developing," he says. Rents are falling more steeply in refurbished or poorly designed high rise buildings. Here DTZ says rents are at a level of $25 to $33 and will fall further next year to $23 and $30.

Demand in Warsaw for office space is now coming mainly from foreign companies which arrived in the country three to four years ago and are now expanding their operations.

At present the stock of office space in the city amounts to 3m sq m, of which one-fifth was built after 1989.

There are about 500,000 sq m under construction and the area of office space becoming available this year is 340,000 sq m.

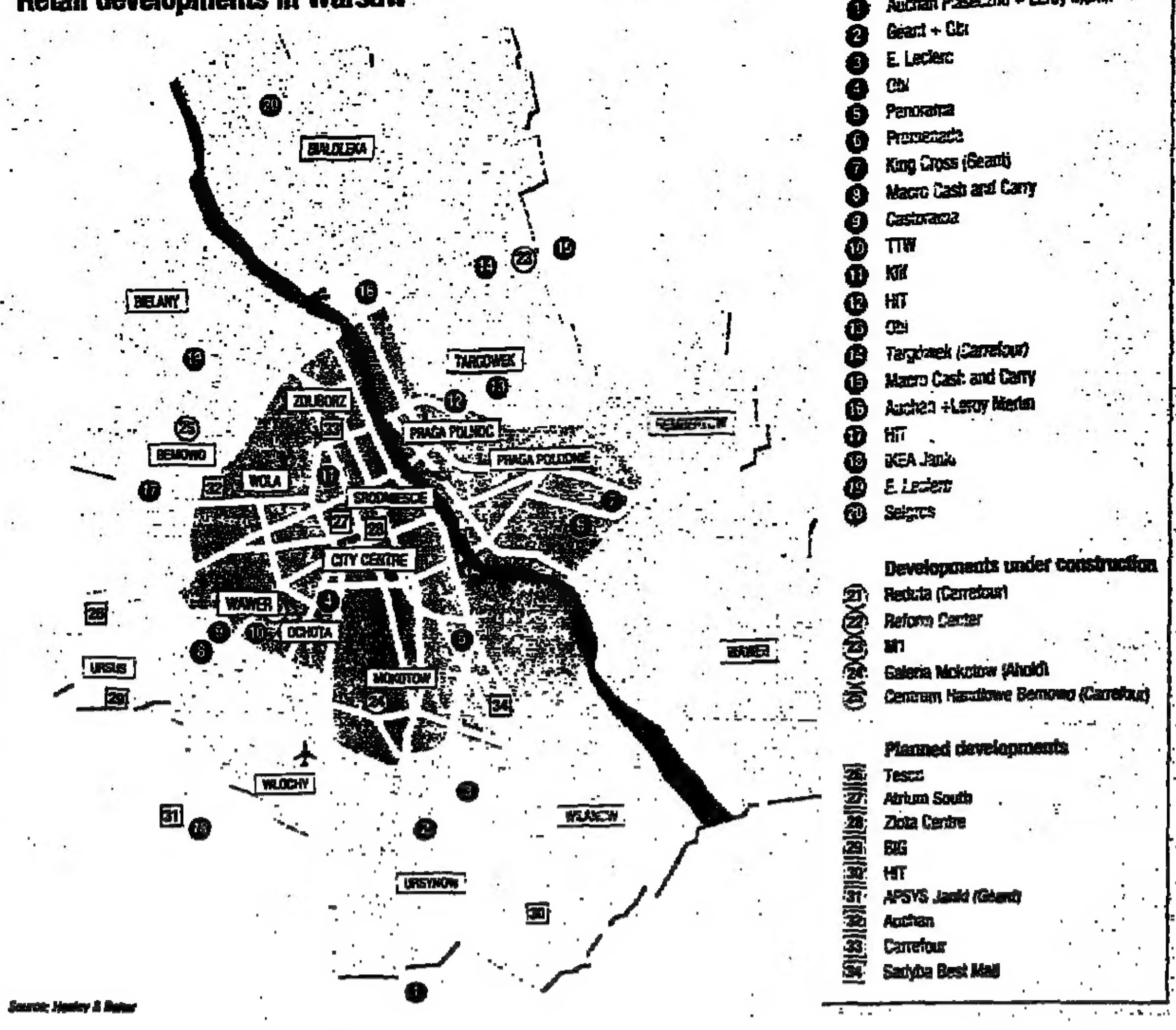
This includes the Warsaw Financial Centre, which enjoys a prime location and offers 49,000 sq m of lettable space.

It is the first high-rise building to rival the stalinist Palace of Culture which has hitherto dominated the city's skyline. Daewoo's Warsaw Towers, which will offer just over 20,000 sq m, is just as high and is scheduled to come on to the market this year.

But there are also signs of a shift away from large projects towards smaller buildings which house the staff of just one or two companies.

"Companies can then put their sign on the building and call it their own," says Mr Jones.

**Retail developments in Warsaw**




Source: Healey & Baker

**PRIVATISATION** by Christopher Bobinski

# Crucial year for sell-offs as budget deficit mounts

The target for this year's programme of disposals is 7bn zlotys. The money is urgently needed to meet a deficit produced by the pension and health service reforms

Almost a decade after the start of Poland's free market reforms, the country's privatisation programme faces a crucial year. A raft of planned disposals should put some of the country's biggest companies including TP SA, the listed telecoms operator, and the huge Plock refinery into private ownership.

However, the task will not be easy because privatisation continues to generate controversy among Poland's political and business elites. But this is not the case for the mass of the population whose earlier fears of privatisation and foreign investment have receded as the private sector has come increasingly to be seen as a source of stable jobs.

This year, the diminutive Emil Wasacz, treasury minister and a former managing director of the giant Huta Katowice steel mill, has been told to raise 7bn zlotys from sales of state assets to shore up budget revenues. The money is urgently needed to fill in a deficit produced by pension and health service reforms introduced at the beginning of the year.

Drafting errors in pension rules which slowed the flow of payments have meant the appearance after the first two months of an alarming gap in the budget. Already just under two-thirds of the year's planned deficit has been reached in a development which puts additional pressure on Mr Wasacz to produce results.

Not only is the Treasury under pressure from the Finance Ministry to produce results, but it also has to manoeuvre amid the interests of politicians from the governing parties who are keen to press their favourites into management positions in remaining state-owned companies.

Another source of tension comes from the right wing of the Solidarity-led AWS senior coalition partner which continues to argue that state assets should be handed out to the population at large in compensation for the privation of the communist period. The right wing also opposes sales of assets to foreigners and routinely criticises the Treasury for selling state-owned companies too cheaply.

Mr Wasacz appears most concerned to answer critics on the free market wing of his governing coalition who say the pace of privatisation slowed last year. He argues that revenues of 7bn zlotys were higher than planned. The value of sales and not the number of transactions is the key figure, the minister stresses. This year, however, both factors will count.

According to Jakob Stott, head of investment banking for emerging markets at JP Morgan, Poland's sell-offs list for this year should raise about $7bn. This figure is largely made up of an ambitious $3.5bn-$4bn which the investment bank has pencilled in as the proceeds from the sale of a 25-35 per cent stake in TP SA. JP Morgan is bidding to act as the lead adviser to the government against competition from Merrill Lynch and Schroders. In contrast, the more cautious Mr Wasacz has suggested the sale will raise $1.6bn.

Secondly, about $1bn is expected to be raised by the sale of a 52 per cent stake in Pekao SA, the commercial bank listed last year which controls about 20 per cent of Poland's banking system. Citigroup and Unicredito of Italy backed by Germany's Allianz insurer have been shortlisted in a controversial disposal where the local Bank Handlowy was excluded *a priori* from the bidding on the grounds that it would be unable to provide the expertise that a foreign bank will furnish.

There is also fierce competition for a controlling stake in the Bank Zachodni, a provincial commercial bank and the last of the nine regional banks hived off from the National Bank in 1989 still in state hands. A bid from Société Générale of France has the backing of the French authorities which are putting pressure on the Poles to facilitate the entry of a French bank. At the same time, Allied Irish Banks (AIB) and a brace of local banks are set to bid in a race to obtain access to a retail network and deposits.

Also in the financial sector, the government recently decided it would sell 30 per cent of PZU, the state-owned insurer, to a strategic investor. PZU holds about 60 per cent of market share but is direly in need of about $50m worth of capital and foreign expertise to streamline operations. Some of Europe's largest insurers such as Allianz and Axa are thought to be planning bids for the stake. Later, the government says, it wants to float the remaining equity on the stock exchange.

The financial sector sales are being handled by the feisty Alicja Kornasiewicz, deputy treasury minister, who returned to Poland to the post after a spell with the European Bank for Reconstruction and Development. Ms Kornasiewicz, who says she feels at home with a balance sheet, will also handle the privatisation of the ailing arms industry. Defence contractors who want to sell equipment to Poland as a fledgling Nato member will have to place orders with local arms factories.

Meanwhile, Mr Wasacz is keeping an eye on the sale of Poland's two big steel mills: Sedzimir in Krakow and Huta Katowice in the industrial district of Silesia. Voest Alpine and Hoogovens are still interested in the former, and British Steel in the latter, and Thyssen wants to take both. The chances are that a deal will be struck some time next year as Poland comes under sustained pressure from the European Union to privatise the industry.

At the same time, the ministry is also hoping to dispose of the Plock refinery which handles 80 per cent of Poland's crude oil consumption. This sale is planned through the stock exchange, in an attempt to create a national champion, on the advice of Kleinwort Benson. Among other planned deals in the energy sector is the Patnow Adamow Konin (PAK) lignite coal-fuelled power complex where Elektrim, the listed telecommunications and power equipment conglomerate, working with California Energy, is favoured to become the strategic investor.



**AGRICULTURE** by Christopher Bobinski

# Collapse in prices prompts series of militant protests

Poland's future as an agricultural producer will lie within the CAP. But for the moment there is a chronic shortage of local funds needed to allow the sector to restructure

Poland's farmers are up in arms after a fall in sales to Russia and a collapse in agricultural prices. Demonstrations by thousands of farmers are almost a regular occurrence in Warsaw, the Polish capital. Last February, week-long blockades of key roads by farmers' pickets plagued motorists and truck drivers.

The new-found militancy has brought Andrzej Lepper, a populist who appreciates the role of the media in getting his message across, to prominence. Mr Lepper, a successful farmer who came to politics in the early 1990s when he found he could not keep up his debt repayments, is riding on a wave of fear in the rural community about its future.

Farmers block a road in Iwno, near Poznan AP

"We are going to be wiped out," says Jan Kuchta, a farmer with 30ha of arable and woodland in the hamlet of Kruczy Borek, 60km north of Warsaw. Mr Kuchta is near retirement age and has children who will secure his future, but the sentiment is typical of a social group which is convinced that its way of life is coming to an end.

Significantly, the present protests are not being led by those whose farms are too small to support them and their families. Already, these households are living off pensions and incomes from regular or occasional jobs in the towns. Rather the momentum is coming from those farmers who in the past few years decided to expand their holdings, take loans and modernise. It is they who have been most hit by the recent fall in prices.

Polish farming has undergone significant restructuring in the past 10 years. In 1988 as much as 13 per cent of gross domestic product was accounted for by farm output. That figure had fallen to 6.5 per cent in 1998. However, about 38 per cent of Poland's population – 11.6m people – live in the countryside. And while there are 2.1m farms, on only half of these do the owners sell food items they have produced themselves. Farming is the main source of income on only about 500,000 farms but it is these farms which will hold the key to Poland's future as an agricultural producer.

That future will lie within the European Union's Common Agricultural Policy (CAP), however that evolves. But for the moment there is a chronic shortage of local funds needed to allow the sector to restructure.

"Polish farming has experienced a 20 per cent fall in production, a 25 per cent cut in demand for its products and a growth in employment," Marian Brzoska, an official at the government's European Integration Unit (UKIE) says of the 1990s. He says that this explains why the sector has been unable and will never be able to raise enough capital to finance its own restructuring. To make things worse, budget funds designed to support farming have been cut by 15 per cent this year.

That leaves World Bank loans and planned pre-accession funds from the European Union. The Brussels SAPARD rural development programme should provide Poland with about €200m a year up to the point of accession, and increased funds from the CAP after that.

At the moment, Polish farmers are agitated about the EU. They see it as a competitor which uses subsidies to undercut their local and foreign markets while closing itself off from Polish food exports. However, officials see hope for Polish farming even in the reformed CAP.

"Why am I optimistic?" says Mr Brzoska. "Because the EU's farmers have benefited from the CAP for over thirty years and there is no reason why Poland's farmers shouldn't benefit from it either.

"Poland may get less funding as a result of membership than EU farmers get now. But it will certainly be more than the amounts they have been getting this past decade in the form of state support," he says.